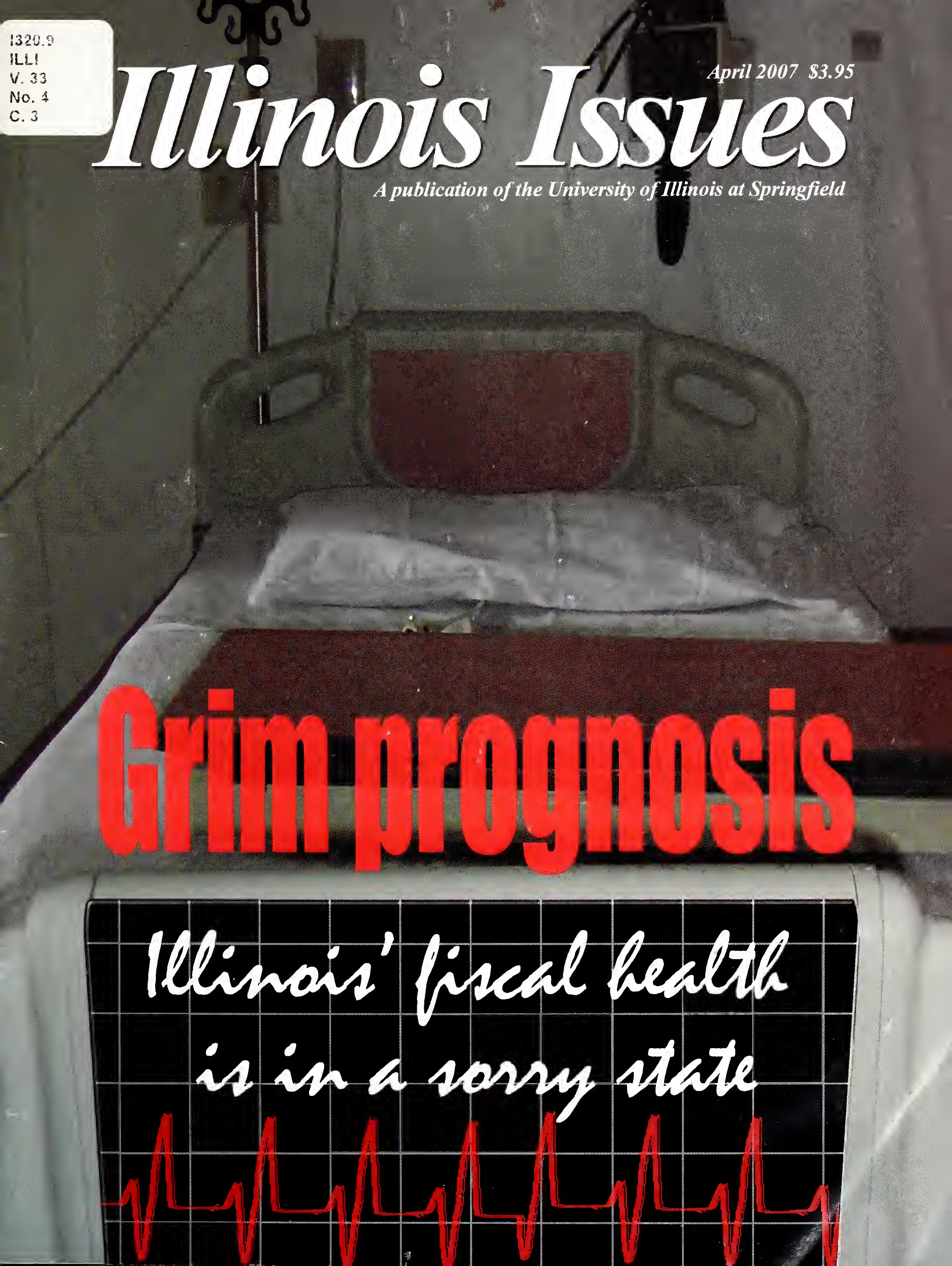
April 2007 $3.95

Illinois Issues

A publication of the University of Illinois at Springfield



Grim prognosis

Illinois' fiscal health is in a sorry state

Illinois Issues
UNIVERSITY OF ILLINOIS AT SPRINGFIELD
PO Box 19243
Springfield, IL 62794-9980

Peggy Boyer Long

Words can inform and inspire but they also can choke off thought

by Peggy Boyer Long

"You shall not press down upon the brow of labor this crown of thorns! You shall not crucify mankind upon a cross of gold!"

William Jennings Bryan
1896 Democratic National Convention

OK, so Gov. Rod Blagojevich never actually uttered the words cross of gold in his faux-populist State of the State/budget address, but he seemed to be straining to channel some of the Salem, Ill.-born Bryan's anti-corporate, pro-labor spirit.

In Bryan's day, the battle was between the industrialists and bankers who were the creditors and the farmers and tradesmen who were the debtors. It was a fight over the gold standard favored by the wealthy class versus an unlimited supply of silver coinage favored by the working class.

The battle continues today, if we're to believe our governor, between hard-working middle-class taxpayers and wealthy corporate giants that aren't rendering their fair share to the state's coffers.

"The moral imperative is this," Blagojevich said in his emotion-charged 35-minute speech, "while the middle class pays more and huge corporations just walk, a child pays the price with increasingly crowded classrooms, the family in need of health care pays a price in health care they can't afford, the worker depending on a pension pays a price with a retirement that is no longer secure."

Really? That's why our politicians have shorted public employee pension systems and underfunded schools for the past three decades? That's why many Illinoisans can't afford decent health care? That's why state finances are on the brink of collapse? Oh, I forgot, the governor didn't have much to say about the state's long-term budget gap.

He did, however, pronounce a gonzo budget plan to overhaul Illinois' revenue structure, borrow the state's way out of debt and sell off some of the family silver. As is his way, he apparently consulted ahead with few beyond his own reflection in the mirror.

Lawmakers were left speechless, if the after-game on public radio was any indication. Here in the office, I thumbed through my *Webster's Ninth Collegiate* for the definition of demagogue. It can mean a leader who champions the cause of the common people — hence Bryan's nickname, "the Commoner."

Or, in definition No. 2, "a leader who makes use of popular prejudices and false claims and promises in order to gain power."

Here's the thing. Words can be used to inform and inspire. When they rely on emotion alone, though, they can

Thanks Charlene

Charlene Lambert, our circulation and marketing manager, has moved on after dedicating two decades of service to *Illinois Issues*.

Dedication is a good word for a couple of reasons. First, her work has always been grounded on a belief in what the magazine stands for. And, throughout her years on this staff, her work has encompassed nearly every responsibility that needed fulfilling, from meeting subscribers' requests to managing our special events. For many of you, she has been the voice and face of the magazine. My guess is you'll miss her as much as we will.

Thanks Charlene for 20 years of service to the magazine. And good luck in your new career as executive assistant to UIS Chancellor Richard Ringeisen. ❑

choke off thought. And there are some questions we should be asking ourselves, beginning with how many of the governor's claims are true.

At the least, we know our problems, and the possible solutions, are more complicated than he makes them out to be.

Here are others to consider in the coming weeks. What, really, is the long-term prognosis for Illinois' financial health? How might the governor's plan help or hurt? What are our spending priorities — for today and tomorrow? Is the state's revenue structure effective? Is it fair? If business isn't paying its fair share, what's the best way to ensure that it does? Are low-income Illinoisans paying a heavier price? If so, how can we fix that?

This month, we invited two fiscal experts to help us begin to think these things through. Charlie Wheeler, who as a journalist covered state budget-making for nearly 40 years, takes the long view in our cover story and addresses the governor's plan in his column, "Ends and Means." Tom Johnson, a state and local tax policy analyst, talks with us about Illinois' revenue structure.

We think it makes for good reading and better thinking. ❑

Peggy Boyer Long can be reached at peggyboy@aol.com.

Want to know more?
A budget on the brink

Illinois Issues will join several organizations on April 16 in co-sponsoring a day-long conference on the state's fiscal condition. It will be held at the Hilton Hotel in Springfield from 9:30 a.m. to 4:00 p.m. A buffet lunch will be provided, but pre-registration is required by April 11. Call 618-536-7751. (See page 33 in this issue for more details.)

The conference participants represent diverse perspectives on fiscal management.

R. Eden Martin, president of the Civic Committee of the Commercial Club of Chicago, will make a presentation in the morning. The Civic Committee, which is comprised of some 80 corporate CEOs, issued a study in December warning that the state faces "financial implosion." The committee prescribed cuts in spending and an increase in the income tax.

Consecutive panels that afternoon will discuss state spending and Illinois' revenue structure, matters that are under discussion in this legislative session.

Illinois Issues columnist Charles N. Wheeler III will moderate the panel on spending. He will be joined by Linda Renee Baker, a professor in the Paul Simon Policy Institute who formerly headed the Illinois Department of Human Services; Mary Ellen Guest, the campaign manager of A+ Illinois, an education advocacy group; Jeff Mays, president of the Illinois Business Roundtable and a former state lawmaker; and Hank Scheff, director of research and employee benefits for AFSCME Council 31, which represents most unionized state employees.

The panel on the state's revenue structure will be moderated by Beverly Bunch, an associate professor with the Institute for Legal, Legislative and Policy Studies at the University of Illinois at Springfield. She will be joined by Greg Baise, president and CEO of the Illinois Manufacturers' Association; J. Thomas Johnson, president of the Taxpayers' Federation of Illinois and a former director of the Illinois Department of Revenue; Ralph Martire, executive director of the Center for Tax and Budget Accountability; and Joan Parker, director of government relations for the Chicagoland Chamber of Commerce and formerly of the Taxpayers' Federation.

Besides *Illinois Issues* and the Center for State Policy and Leadership at the University of Illinois at Springfield, the conference will be co-sponsored by the Paul Simon Public Policy Institute at Southern Illinois University Carbondale, the Institute of Government and Public Affairs at the University of Illinois at Urbana-Champaign and the Center for Tax and Budget Accountability. ❑

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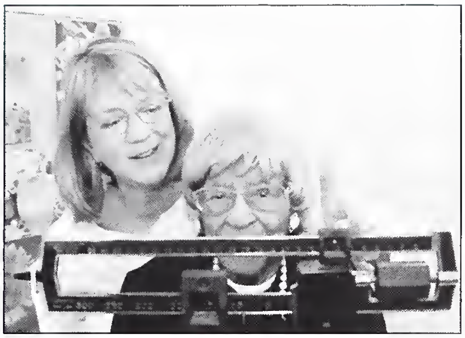
April 2007 *Volume XXXIII, No. 4*



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Can we make schools accountable? page 27

FEATURES

Credits: *Our cover was illustrated and designed by Diana L.C. Nelson.*

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Subscription questions: *Illinois Issues*, Subscription Division, P.O. Box 2795, Springfield, IL 62708-2795 or call 1-800-508-0266. Hours are 8:00 a.m. - 4:30 p.m. Central Time, Monday-Friday (except holidays). ***Subscriptions:*** $39.95 one year/ $72 two years/ $105 three years; student rate is $20 a year. Individual copy is $3.95. Back issue is $5. *Illinois Issues* is indexed in the PAIS Bulletin and is available electronically on our home page: http://illinoisissues.uis.edu. *Illinois Issues* (ISSN 0738-9663) is published monthly, except during the summer when July and August are combined. Periodical postage paid at Springfield, IL, and additional mailing offices.
Postmaster: Send address changes to *Illinois Issues*, Subscription Division, P.O. Box 19243, Springfield, IL 62794-9243.

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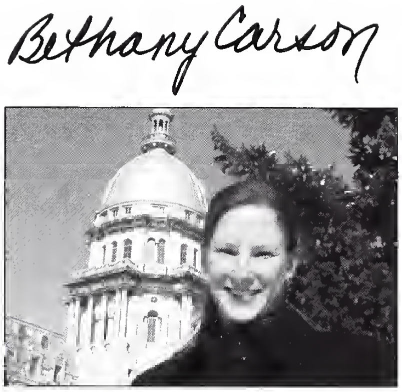


The governor wants Illinois Covered but he stops short of mandating health insurance

by Bethany Carson

First he covered kids. Now he wants to cover adults. That's Gov. Rod Blagojevich's health insurance plan in a nutshell.

He wants to offer a combination of public and private coverage to more than 1.4 million Illinois adults who lack insurance. He goes a step further, aiming to help millions of others who have employer-sponsored health insurance but have a hard time paying for it. Yet he stops short of mandatory insurance, at least for the next three years.

Supporters call this near-universal health care plan ambitious. Opponents say it overreaches.

Indeed, Blagojevich's plan doesn't go as far as Massachusetts' new law requiring individuals to have health insurance and employers to provide it. Nor does he go as far as his own health care task force recommends. But details will need to be negotiated before patients, medical providers, insurance companies and health care advocates can be sure how far his plan intends to go.

The Adequate Health Care Task Force, a 29-member panel created by a 2004 state law, spent 18 months studying ways Illinois could provide affordable health care for all. Two recommendations — one that required majority agreement, the other a dissenting minority report — were issued in December 2006.

Pieces of the panel's report appeared in the governor's Illinois Covered plan.

Gov. Rod Blagojevich's plan doesn't go as far as Massachusetts' new law requiring individuals to have health insurance and employers to provide it.

For instance, Blagojevich aims to extend Medicaid eligibility to adults who don't have children and to individuals who return to work with disabilities. He would offer state rebates or subsidies to help people pay their monthly premiums. And insurance companies would be required to offer a state-guaranteed standard benefits package to small groups. Doctors would get incentives to serve Medicaid patients, an attempt to help the state capture more federal Medicaid dollars.

Other parts of the plan veer from the task force's goal, says Rep. Elizabeth Coulson, a Glenview Republican and task force member appointed by House Minority Leader Tom Cross of Oswego.

"I think that he's taken some of the good pieces of what the task force suggested," she says. "My concern is he has also added some things — because it was a consensus-building task force — we chose to not include."

For instance, she says, he proposes "subsidizing a new middle-class program."

The governor calls it his Choice option for small employers, their employees and others whose jobs don't include health benefits. Illinois would partner with private insurance companies to provide cheaper, more comprehensive policies that would be guaranteed regardless of health status. He would create a so-called statewide purchasing pool and require insurance companies to cover the minimum standard, although the details won't be known until legislation is introduced in the General Assembly.

Guaranteed insurance coverage is risky for the industry, but could be worked out, says Michael Murphy, a task force member and director of governmental affairs for UniCare insurance company. That would be comparable to "allowing an individual to buy property and casualty insurance for their home while it's on fire," he says. "People can go without insurance until a dramatic diagnosis and then go and buy insurance. Those kinds of things drive up costs."

Another moving part is the standard benefit requirement. "How are costs going to be managed?" Murphy says. He knows premiums would be capped at a percentage of income, so insurance companies want to know how the state could ensure that they don't lose out if they're required to charge premiums that

are lower than the cost of providing the policies. "It was just one line in the news release, and we don't know what that means. So we're waiting to see the details."

But Murphy says what he has seen so far is that Blagojevich's plan differs slightly from what he's seen in other states.

While Blagojevich doesn't go as far as Massachusetts' mandate, he does go further than six other states that are aiming to help small businesses and their employees afford health insurance, according to the National Conference of State Legislatures, a nonpartisan group of lawmakers. Hawaii is unique in that it got an exemption from the feds to require that all businesses offer health insurance. That state also is considering a more radical plan to create a single state-run health insurance program for everyone.

Seven other states last year narrowed their focus to young adults, the fastest-growing uninsured population. The 18-to-24-year-old group is most likely to lack health insurance, according to the U.S. Centers for Disease Control and Prevention. The agency's 2005 National Health Interview Survey shows the group between 25 and 34 is the second-most likely to lack health coverage.

Blagojevich's plan would extend from 23 to 29 the age at which young adults could stay on their parents' insurance plans.

Coulson agrees the state realistically can address the "young, invincible group of the uninsured" this session. However, rather than keeping young adults on their parents' plans, she says she would rather develop a minimum level of health insurance available at a relatively affordable amount, about $100 a month.

If the General Assembly approves the governor's plan as is, adults with no children would be eligible for Medicaid as early as January. The following July, middle-income people who make up to $80,000 a year in a family of four could get premium assistance through a rebate or state subsidy. The state-guaranteed insurance coverage would be phased in between 2009 and 2010.

Only then would the state consider putting a mandate on individuals and businesses, says Anne Marie Murphy, state Medicaid director for

He does go further than six other states that are aiming to help small businesses and their employees afford health insurance.

the Department of Healthcare and Family Services. "We'll certainly consider a mandate after three years, but you might need four," Murphy says, adding it would be like requiring car insurance and charging penalties for noncompliance. "We're in trouble if we don't have it. It's exactly the same idea."

Although the governor's plan wouldn't require businesses to offer health benefits, owners would have to pay a fee if they didn't pay at least 4 percent of their total payroll toward comprehensive benefits. That's similar to California Gov. Arnold Schwarzenegger's $12 billion plan that he announced in January. In Illinois, the tax would start in July 2008 and generate $1.1 billion to help cover premium subsidies.

While Blagojevich estimates that his plan, when fully implemented over three years, could cost $2.1 billion, the task force's proposal would carry a $3.6 billion price tag for the state and $1.5 billion for employers.

The proposals also differ in primary funding sources. Blagojevich's health plan is contingent on a so-called gross receipts tax on businesses.

That idea faces strong opposition from the business community.

Doug Whitley, president and chief executive officer of the Illinois Chamber of Commerce, says the governor's tax plan is misleading because it alleges businesses don't pay their fair share of state income taxes.

"They are paying sales taxes and property taxes and payroll taxes and workers' compensation taxes and unemployment insurance taxes," Whitley says. "There is a huge tax burden that every corporation pays whether or not they have an income tax liability in any given year."

The increased minimum wage approved earlier this year would add insult to injury if a gross receipts tax and a health insurance payroll tax were enacted, he says.

"I think a better solution to the health care issue is to get more people working in Illinois so that their employers will be able to provide them with the kind of health coverage that they want and need and expect," he says. "It's in our interest to get more people off the uninsured rolls, but I'm not sure the governor's solution of making big government programs is the correct one."

Kenneth Smithmier, president and chief executive officer of Decatur Memorial Hospital, also is on the health care task force and a member of the Illinois Hospital Association, which immediately endorsed the governor's plan. But Smithmier says hospitals and doctors need more information.

"There is a factor in the equation that's not being quantified yet that I think is very important for us to get to if we're going to have an objective, unemotional — or at least as unemotional as we can get — discussion about this," he says.

He says people who have insurance are paying higher premiums to compensate for one-third of the cost of caring for the uninsured. "If we start to get these uninsured people into some kind of insured plan, what does it do to slow down the upward pressure on health insurance premiums, therefore lessening the economic pressure on businesses and private citizens who pay for those health insurance premiums?"

Massachusetts is still working out similar details in the first three months of enforcing its new mandate. As of mid-March, the commonwealth still had to decide whether the most basic insurance plan would have to cover prescription drugs. Patient advocates argue yes. Businesses argue no, but they aren't bailing yet, says Brian Rosman, policy director of Health Care for All, a group that is promoting the new law.

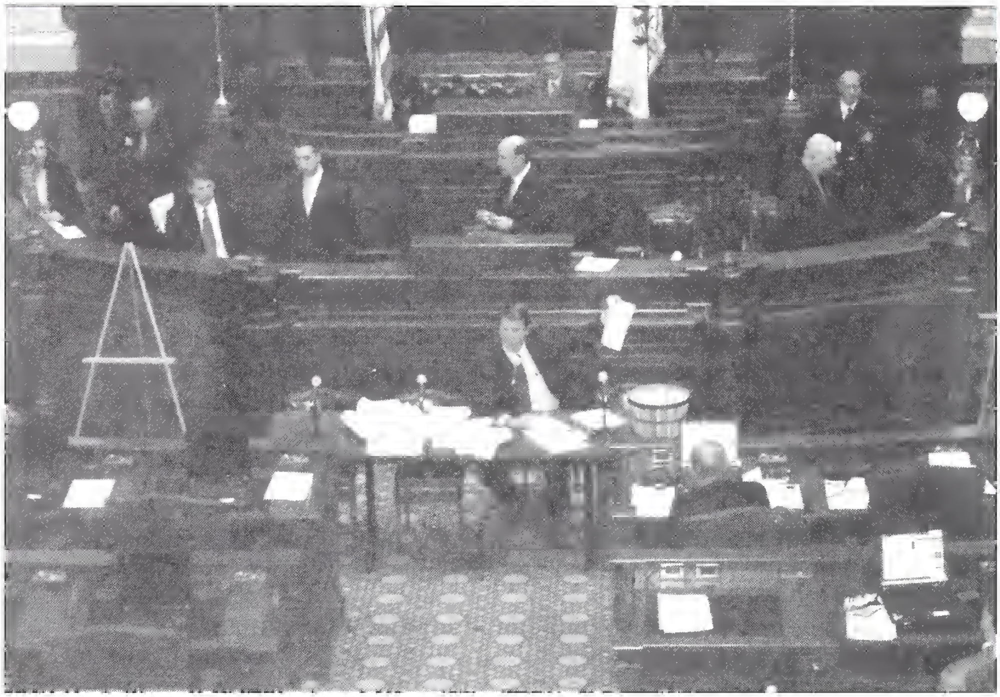
Offering insight to Illinois, he says the burden of compromise rests on the governor's shoulders. "Is he powerful enough to politically negotiate among the various interests of the hospitals, the insurers, the advocacy groups and the business community to find something that's in everybody's interest, which is basically what happened here?" he says. "It's going to be a struggle." ❑

Bethany Carson can be reached at capitolbureau@aol.com.

BRIEFLY

BRIGHT IDEAS?
Lawmakers debate rewiring electric utility deregulation

Photograph by Bethany Carson



"The scales of justice in this state are out of whack," said Rep. John Bradley, a Marion Democrat. Bradley was sitting at the head table during a rare hearing before the full House. The subject was high electric rates, and Bradley brought a basket and two stacks of constituents' bills. "The utilities are holding the state hostage," he said. "People in southern Illinois are cold."

Customers who use all-electric heat may not get the immediate relief they were seeking three months after a 10-year electricity rate freeze expired.

Illinois lawmakers are still making multiple attempts to reinstate a freeze. One proposal would return rates to their 2006 levels and offer refunds to customers back to January, when higher rates set in. A House committee approved the measure the week after a rare Committee of the Whole heard testimony for 12 hours. But the measure's chances are slim in the other chamber, where Senate President Emil Jones Jr. opposes freezing rates again.

Lawmakers urged the Illinois Commerce Commission, which regulates electric utility rates, to take immediate action, but Chairman Charles Box testified that a change could take more than a month. The commission held a special meeting in Chicago and voted to initiate an investigation into the way the state's two major electric companies designed rates for different groups of customers, particularly all-electric residences and businesses.

During the Committee of the Whole, downstate legislators cited increases as high as 300 percent. Among nearly 50 witnesses were a day care owner who had to shut her doors and a downstate school superintendent who said she would have to divert general state funding from the classroom to pay the electric bills.

Rep. John Bradley, a Marion Democrat, said southern Illinois is in crisis. "We cannot go two months, we cannot go 10 months, we cannot go 12 months without relief," he yelled from his seat.

Ameren Illinois President and Chief Executive Officer Scott Cisel told the committee that the higher-than-average increases were partly because of the unusually cold winter and partly because the utility ended discounts in January for electric-only customers. Rates for about 114,000 all-electric customers went up anywhere from 80 percent to more than 100 percent. Cisel said the company didn't warn that group of customers that their rates would increase more than the average 40 percent to 50 percent.

"We could have been more proactive, more forthcoming with all of the customer groups," he said.

Cisel also surprised legislators when he announced a new proposal to offer a one-time credit to residents who use more than the average amount of electricity. But Ameren pulled the plan in mid-March in response to a negative credit rating that resulted from legislative action to refreeze rates. The commission then ordered Ameren to explain its threats of layoffs and disrupted customer service based on that credit rating.

Cisel previously testified to the committee that his company would go bankrupt if rates were frozen again. "I don't know when to believe you folks," said Rep Roger Eddy, a Hutsonville Republican. "That's a very dangerous thing."

Ameren Illinois serves 1.2 million electric customers downstate. Commonwealth Edison, the utility serving 3.7 million customers in northern Illinois, capped rate increases for all-electric customers at 28 percent a year, said Chairman and Chief Executive Officer Frank Clark. The all-electric customers will eventually have to pay the normal rate, which averages about 24 percent a month higher than the rate during the 10-year freeze.

Bethany Carson

Watch Illinois Issues' *Statehouse blog for the latest on this evolving story. Go to* http://illinoisissues.uis.edu *and click on the link.*

LEGISLATIVE CHECKLIST

House leaders introduced roughly 350 so-called shell bills in a single day last month. That leaves lots of wiggle room to work out details later. Among the issues that could come up this spring are bioterrorism, ethics, taxes and health insurance policy. But other proposals could spark debate. Here are a few.

Statewide smoking ban

A measure introduced in both chambers would ban smoking in public places. Smoking would not be allowed within 15 feet of building entrances, exits or open windows. If approved, smoking in any public area, including restaurants, bars, student dormitories and riverboats, would be illegal.

HPV vaccine

Girls ages 11 and 12 would be required to receive a series of shots designed to stop the human papillomavirus, a sexually transmitted disease, under a measure sponsored by Sen. Debbie DeFrancesco Halvorson, a Crete Democrat. A Senate committee approved the measure. If approved by both chambers, the vaccinations would be added to the state's list of 10 required inoculations.

Cable connections

Cable companies would be able to create a video franchise through the state rather than having to go through individual municipalities under a measure backed by AT&T Illinois. Company President Paul LaSchiazza says a so-called statewide video franchise would allow a more uniform process and grant customers a larger selection of cable services.

An opposing group called Keep Us Connected, including municipalities and public access channels, says a statewide video franchise would eliminate local authority to regulate cable TV, allow discrimination in some neighborhoods and erode consumer protections. The city of Naperville also says previous attempts to negotiate with the company were unsuccessful because of demands the community considered unreasonable, including a requirement to erect six-foot-tall wiring boxes for every 300 homes.

Criminal sentencing

Prisoners would have 10 years after their convictions to ask a judge to review their cases if they believe they had inadequate representation or unfair trials under a measure sponsored by Rep. Arthur Turner, a Chicago Democrat. Ex-convicts currently have three years to file for review. If approved, the measure would apply to previously dismissed cases.

Death penalty reform

Lawmakers are considering multiple death penalty reform measures.

One House measure would require state's attorneys to tell possible jurors whether they are seeking the death penalty in cases against defendants charged with first degree murder. Defense and prosecuting attorneys would be able to challenge jurors on their biases about capital punishment.

Sen. Mattie Hunter, a Chicago Democrat, revived a measure in her chamber to repeal the death penalty altogether.

Under a resolution, the Senate also could form a committee to study wrongful convictions in an attempt to find patterns. That committee would recommend whether the state should create a process to review wrongful conviction claims before the cases landed in appeals court.

Drive-by shootings

The penalty for killing someone in a drive-by shooting would be life in prison if the convicted felon escaped a death sentence under a measure sponsored by Rep. Charles Jefferson, a Rockford Democrat. A person found guilty could face the death penalty at a jury's or a judge's discretion.

Food stamps

Individuals using food stamps could face restrictions on items they buy at the grocery store under a measure sponsored by Rep. Bill Mitchell, a Forsyth Republican. The state would determine the eligible food items.

Mammograms

Women younger than 40 who have a high risk of developing breast cancer would be able to receive mammograms and ultrasound for preventive care under a Senate measure. Insurance companies would have to pay for the tests.

Low-income tax credits

The Senate approved a measure to increase the income tax credit from 5 percent to 7.5 percent for low-income Illinoisans in 2008. That would increase the maximum benefit from $220 to $330. In 2009, the maximum benefit would increase to $440.

National ID cards

The House introduced a measure that would urge Congress to repeal the new federal law requiring standardized national ID cards. The resolution calls the Real ID Act a "costly unfunded mandate" that would place unreasonable burdens on state driver's license facilities. It also says the act has potential to cause significant hardship for Americans attempting to verify their identities and could make identity theft easier by storing all information in a single national database.

Bethany Carson and Deanese Williams-Harris

POLITICAL MONEY
Researcher hits state's finance laws

A report by a New York think-tank argues Illinois has the weakest campaign finance laws of the five major Midwestern states, including Michigan, Minnesota, Ohio and Wisconsin. "Illinois is one of the only places in America where literally anyone can walk in the door and spend whatever they want to influence the outcome of an election," Suzanne Novak said in a printed statement.

As deputy director of the Democracy Program at the Brennan Center for Justice at New York University School of Law, Novak, who wrote the study, found that no contribution limits or public financing, limited disclosure and poor enforcement of existing laws "are pushing campaign costs through the roof and fueling a pay-to-play culture that threatens to undermine public confidence in state and local government."

Novak found that the State Board of Elections has been hamstrung by partisan gridlock and has failed to enforce the laws, signaling they can be evaded.

She also takes Illinois to task for having no statewide regulation of contributions from nonprofits that often receive state government grants or aid nor from entities that do business with the state. Measures banning so-called pay-to-play politics were introduced this legislative session, along with restrictions on judicial campaign financing.

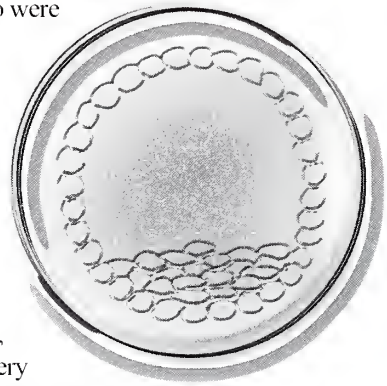
Dan White, executive director of the elections board, says, "We appreciate the Brennan Center's report, and we take their recommendations and their suggestions very seriously." The board was scheduled to discuss it.

"I think that this report from an outside, dispassionate perspective raises discussion," says Cynthia Canary, executive director of the Illinois Campaign for Political Reform. "While it was harsh on the Board [of Elections], I think within the state what we should do with this critique is use it to rethink ways we can insulate the board from politics and build a better board, ensure that they have the funding they need and ensure that the structure really facilitates decision-making."

Beverley Scobell

STEM CELLS
Growing support for state-funded research

Persistence paid off for Sen. Jeffrey Schoenberg. The Evanston Democrat gained enough votes in his chamber in late February to win approval for a measure that would allow public funding of stem cell research. "One of the greatest disappointments that I ever faced in politics was falling narrowly short a couple of years ago," he says. The measure gained seven votes, five of which were from newly elected Democrats representing the Chicago suburbs. Two yes votes also were cast by suburban Republicans.



The House approved a similar measure sponsored by Rep. Sara Feigenholtz, a Chicago Democrat. If both chambers approve the same wording, state tax dollars would fund all types of stem cell research, including the controversial type that uses stem cells from embryos.

During Senate floor debate, lawmakers who opposed the measure cited ethical and moral convictions. Supporters included Sen. Linda Holmes, an Aurora Democrat who has multiple sclerosis. "Every year I schedule a skiing trip, not knowing if it will be my last," she says. "This research will give many people hope."

Schoenberg says he hopes, in addition to multiple sclerosis, scientists will make advances in finding cures for juvenile diabetes, spinal cord injuries, Lou Gehrig's disease and Parkinson's disease.

Both measures would prohibit human cloning and allow people to donate their frozen embryos that would otherwise go unused.

Comptroller Daniel Hynes and Senate President Emil Jones Jr. expressed support earlier this year for stem cell initiatives. Hynes has advocated a $100 million research program funded by the state's portion of a national tobacco settlement. Two measures would aim to recover $25 million from the tobacco settlement money in the next state budget.

House Minority Leader Tom Cross of Oswego, whose daughter has juvenile diabetes, is sponsoring the House version.

Schoenberg says he would like to increase the contribution of state funds because "I realize that public funding is the magnet that draws dollars from foundations, private donors and biomedical research capital funds."

The $25 million would go to the Illinois Regenerative Medicine Institute created through executive order by Gov. Rod Blagojevich in 2005. Without legislative approval, he and the comptroller earmarked $10 million in state grants for such research.

California, Ohio and New Jersey were the only states besides Illinois, as of last month, to use public dollars to fund stem cell research, according to the National Conference of State Legislatures.

Deanese Williams-Harris

The state is selling a hotel to cover owners' debts

The President Abraham Lincoln Hotel and Conference Center in downtown Springfield owed the state nearly $30 million on a mortgage issued 25 years ago. It now has new operators until the state can sell it at foreclosure.

The Sangamon County Circuit Court appointed Hostmark Hospitality Group of Schaumburg to run the hotel.

"The receiver will increase the value of the hotel by improving its financial health and reversing its physical decline after years of neglect," state Treasurer Alexi Giannoulias said last month in a printed statement. "Today's actions are long overdue for a hotel that should serve as an economic engine for Springfield and its residents."

Gov. Rod Blagojevich joined Giannoulias in lifting the ban on state employees staying at the hotel.

REPORT

Calls to end hospital construction board

Competition within the hospital industry sparked debate in the Illinois General Assembly about the fate of an agency responsible for controlling hospital construction costs.

The Virginia-based Lewin Group consulting firm issued a report calling for elimination of the Illinois Health Facilities Planning Board within three years, but only after lawmakers find a way to protect hospitals that serve inner city and rural areas.

Sen. Jeff Schoenberg, an Evanston Democrat and co-chair of the bipartisan Commission on Government Forecasting and Accountability that hired the consulting firm, says the report is "like Toto pulling the curtain in the Wizard of Oz." But the commission isn't making a formal recommendation to the General Assembly.

Schoenberg says politics and economic trends complicate the issue, but there's a common thread in the debate about universal health care and uncompensated care provided by hospitals: It's all about how the state redistributes health care access and resources.

"Accessing quality health care is not like buying a Lexus," he says.

The Health Facilities Planning Board was created in 1974 as an independent state panel that approves or denies construction projects for hospitals, nursing homes and emergency centers. Without legislative action, the board is set to expire April 1.

Al Dobson, co-author of the Lewin Group report, said at a February hearing that without reform the construction review program isn't effective.

"If you're trying to save dollars in total with this program, it's the wrong program," he told the legislative commission. He later added, "If there's one thing this program might do, it's protect the safety-net hospitals."

The Lewin Group defined safety-net hospitals as those with at least 25 percent of their patients enrolled in Medicaid, the federal-state health insurance for the poor and disabled.

Most Illinois hospitals want the board to remain active for at least five more years because, without it, traditional hospitals face unfair competition, said Gary Barnett, an officer with the Illinois Hospital Association and chief executive officer at Mattoon's Sarah Bush Lincoln Health System. He told the commission that specialty clinics — including surgical centers and cardiac hospitals — are privately owned by doctors and don't have to provide as much uncompensated care as traditional hospitals do. Rather, they tend to serve well-insured patients.

Dobson said that more competition between the types of hospitals could lower costs, but the state has to be careful not to impair the viability of nonprofit hospitals that serve the uninsured. He added that an alternative to the construction review process would be to better fund existing programs that protect those safety-net hospitals.

Bethany Carson

GOT WORMS?

An Illinois university tries vermicomposting

All that wriggles may be gold, according to researchers at Southern Illinois University Carbondale. Their new "worm farm," a first at any university in the state, is turning cafeteria food waste into rich compost they hope to use in plantings on the University Farms.

With the help of state and county grants, the university completed construction last summer on a barn and bins to house 2 million red wigglers. The earthworms moved in and went to work, consuming about 1,200 pounds of food waste a day from Trueblood, the school's largest residential dining hall. Other cafeterias' food waste will be integrated over time.

The waste is ground into a pulp so the worms can more easily break it down. They then produce castings that are more nutrient-rich than the products of regular composting techniques. Vermicomposting takes several months, and the first harvest was scheduled for the end of March.

"We want to reduce our effects on the environment by reducing what we send to the landfill," says Andilee Warner, recycling and solid waste coordinator at SIUC. "We want to close the loop. So things that we produce on campus, we want to find, as much as possible, ways to recycle it on campus."

Photograph by Jeff Garner, courtesy of Southern Illinois University Carbondale

Andilee Warner holds one of the 2 million red wiggler worms that SIUC is using to turn food waste into a soil additive.

Bringing in worms is expected to save the university a lot of green. Formerly, it cost \$2,000 to \$3,000 a month to ship all of the university's food waste to the Jackson County Landfill, says She-Kong Chong, a soil physicist and professor in the Department of Plant, Soil and Agricultural Systems.

"Once you look at the figures, it's kind of scary how much you waste."

Warner worked with Chong and department chair Brian Klubek to draw up grant proposals.

SIUC also recycled fly ash, waste material from the university's coal-fired steam plant, into the mix for the barn's foundation. Used motor oil from university vehicles will heat the worms' home in the winter months.

"You can see that a lot of people are getting more and more aware about sustainable, organic things," says Chong. "We are so lucky that we were able to get into this program early and get this project started."

Chong is leading research efforts at the university on the merits of vermicompost as a substitute for conventional fertilizer. They hope to test vermicompost on one acre of field crops at the University Farms this summer.

So far, Chong says, the vermicompost shows potential for use not only on vegetable crops, but on turfgrass, known for its water- and chemical-intensive maintenance. "We are very happy with what we got. This is probably the direction for the future."

Any excess vermicompost from the research will be applied to the campus grounds as an organic soil amendment, helping the university reduce its chemical fertilizer use, says Warner.

Along with funding from the university, the project received grants from the Illinois Department of Commerce and Economic Opportunity's Bureau of Energy and Recycling, the Jackson County Health Department and the Illinois Department of Agriculture. *Vera Leopold*

OPEN SPACE

Advocates find Illinois lags in protecting land

Illinois protects just 1 percent of its land, leaving this state far behind others in the Midwest in acreage of preserved open space per capita. That's according to a report released last month by the Illinois Environmental Council Education Fund, The Nature Conservancy and The Trust for Public Land.

The study, *Illinois State Land Conservation Funding*, analyzed trends in state spending on open space programs. It found that, after peaking in fiscal year 2002, funding dropped by about 80 percent.

This is a problem, the report states, because "[a]s Illinois continues to fall behind in land purchases, it is becoming increasingly more expensive to catch up. As the real estate market has boomed, land prices have risen steadily throughout the state, making open land both scarcer and more expensive."

According to the report, sale prices for rural farmland statewide increased 68 percent since 2000. Meanwhile, growth rates are exploding in many areas, especially in Chicago's collar counties, where Kendall County is ranked the third-fastest-growing county in the nation.

The report's authors also raise concerns about loss of wildlife habitat. Because of Illinois' extensive agricultural use and expanding residential and commercial development, the Prairie State now has less than one-tenth of 1 percent of its original prairie habitat and has lost more than 90 percent of its wetlands.

Two long-term state programs, both created in the late 1980s and funded through the Real Estate Transfer Tax, are the main sources of dollars for open space preservation projects. The Open Space Lands Acquisition and Development Fund provides matching grants to local governments for outdoor recreational development such as parks and playgrounds, while the Natural Areas Acquisition Fund focuses on acquiring and preserving high-quality and rare natural habitats.

More dollars were available in the dedicated funds because of the real estate boom. But real spending from those funds dropped because the state has consistently failed to appropriate the full amount and has diverted millions to the state's general funds. Though legislators prevented some raids (see *Illinois Issues*, May 2005, page 23, and July/August 2006, page 10), $80 million was diverted over the past six years.

Spending on other conservation programs such as Conservation 2000 was cut, the report notes, while funding for the Open Land Trust program stopped completely.

Photograph by Charlie Westerman, courtesy of the Openlands Project

Nippersink Creek in McHenry County

In terms of open space protection and funding, "no matter which years we were looking at, Illinois ranked really poorly compared to other states," says Jonathan Goldman, executive director of the Illinois Environmental Council Education Fund. "Even at our best, we were still ranking in the bottom third."

The report describes public opinion polls as well, stating that voters "have consistently shown their willingness to pay more in taxes if they know the money is going to protect land." In northeastern Illinois, every county-level referendum on open space preservation has been approved in the past 10 years.

The authors recommend leaving the dedicated funds from the real estate transfer tax untouched in future years and using new planning tools such as the Illinois State Wildlife Action Plan and the Illinois Natural Areas Inventory to guide additional open space funding. They also suggest increasing the sales tax on wildlife-associated sporting goods, doubling the real estate transfer tax or putting land acquisition in the capital budget.

Vera Leopold

Photograph by John Sasser, courtesy of the Landmarks Preservation Council of Illinois

The century-old house in Park Ridge that was the home of the Kalo Arts Crafts Community and the center of the Arts & Crafts movement in America is for sale as a "tear down." A local preservation group will hold a fundraiser this month to buy the $1.2 million house. It intends to restore the house to a working art studio and a museum where hand-wrought silver and copper items, including Kalo jewelry, flatware and holloware that is now collectible, would be on display. Grant Wood of* American Gothic *fame worked there as a metalsmith, as did dozens of other now-famous artists. Park Ridge has no preservation ordinance to protect historic structures.

COMMUNITY
Groups use federal program to prepare for emergencies

Volunteer groups in communities across Illinois are taking on training and organizational responsibilities to respond to potential disasters, whether natural or criminal. But preliminary data in a recent study by Southern Illinois University Carbondale shows that these Community Emergency Response Teams, which are funded through the Department of Homeland Security, react differently to emergency situations, depending on whether they are based in rural or urban settings.

In urban areas, the community groups primarily back up well-trained, well-equipped first responders. They can take on duties such as answering telephones, transporting special needs people and preparing food.

However, in rural areas they often are the first responders, and citizen preparedness is based more on self-reliance, says project director Courtney Flint, an assistant professor in the SIUC's department of natural resources and environmental sciences. "They are used to taking care of themselves and their neighbors," she says, "so they know who needs what."

Photograph by Ralph Hinkle, courtesy of the Milton Township Citizen Corps

Volunteers put their Community Emergency Response Team training to work in a mock disaster drill in June 2005. The team serves more than 41,000 households.

Yet the basic premise of the training, which can be as simple as using a fire extinguisher and applying first aid to specialized training in handling hazardous materials or dispensing antibiotics and vaccines, is aimed at educating citizens to be their own first line of defense while waiting for police or fire and rescue.

"Hurricane Katrina brought it out even more that a lot of people just don't know how to do some stuff, [like] keep 72 hours of food on tap in case first responders can't get to you, so you're not entirely stranded," says Kristin Canterbury-Evans, the state coordinator of the Illinois Citizen Corps Council that oversees the community response program.

The growth of community training has been "exponential" since 9/11, says Flint. Before the attacks that day, there were only about 175 trained community teams nationwide. The current list is more than 2,400. Originally part of the Federal Emergency Management Agency, the program was moved to Citizen Corps, which is under the Department of Homeland Security.

Photograph by Ralph Hinkle, courtesy of the Milton Township Citizen Corps

The Milton Township Citizen Corps, based in Wheaton, has 265 active members who have been trained and equipped to help first responders during a disaster.

The Illinois Citizen Corps Council is part of the Illinois Emergency Management Agency and the Illinois Terrorism Task Force. Canterbury-Evans says Illinois has 65 to 70 active community teams but that it has been difficult to build a solid data set. About 95 groups have signed up under the Citizen Corps Council, which is a new requirement before forming a team.

Some, like the Champaign Fire Department, choose not to form an emergency response team but offer training in basic fire suppression and first aid skills to as many people as want to learn. Tim Murray, manager of the Champaign corps council, says that beginning this month training will include storm kits and basic disaster drill procedures like turning off the gas and electricity to homes.

However, funds for training are getting harder to come by for most groups, says Canterbury-Evans. The fiscal year 2007 budget for the national program was cut 25 percent, for a total outlay of $15 million. She says that's also the outlook for the 2008 federal budget.

"It's a dilemma," she says, "that the more we grow, the less money we have to spread around to the groups serving their communities."

Beverley Scobell

Chemical security rules attract critics

Congressional Democrats blasted new federal rules as too weak to ensure safety from terrorists at chemical plants, while the chemical industry complained that some of the details are too vague.

Congress ordered the new regulations from the Department of Homeland Security when Republicans still controlled both chambers (see *Illinois Issues*, November 2006, page 23).

The temporary rules could have a significant impact on Illinois, which has 745 chemical manufacturing plants employing 52,000 people. Those factories produce everything from pharmaceuticals to fertilizers to household cleaners. In fact, U.S. Sen. Barack Obama of Illinois was one of several congressional Democrats pushing for more stringent requirements than President George W. Bush's administration eventually produced.

When Congress failed to agree on a stand-alone law, the Republican leadership granted the administration authority to write its own rules until a compromise could be reached. That authority came as a provision of this year's budget for the Department of Homeland Security.

Beginning in April, the department will start requiring the highest-risk chemical plants to submit evaluations of their risk of terrorist attack and efforts the manufacturers are making to deter those attacks. Agency officials will follow up with audits and site inspections.

The Democrats, who now run Congress, attacked the agency's rules on several fronts. They criticized the department's plan to slowly phase in the reporting requirements, and they questioned why the agency hadn't included measures to prevent accidents using safer technology.

But the most intense opposition stems from the administration's plans to trump state laws that also govern chemical plant security. That's a particular sore spot for New Jersey, which passed its own security measures in 2005, but the rules could stop other states and municipalities from beefing up chemical plant security within their borders in the future.

"The Department of Homeland Security is not the only body that can and should help ensure the safety and security of the nation's chemical facilities," wrote U.S. Sen. Joseph Lieberman, an Independent from Connecticut who caucuses with Democrats, in a letter to the agency. "States and localities have long regulated such facilities to address vital safety and environmental concerns."

The chemical industry was generally supportive of the new measures, but they expressed qualms too. In particular, the American Chemistry Council says it's worried because the department didn't specify which facilities would be deemed "high risk" and, therefore, subjected to additional scrutiny.

Facilities that don't comply with the new rules could face fines of up to $25,000 a day and, in extreme cases, could even be shut down. When releasing the regulations, Homeland Security Secretary Michael Chertoff promised the agency would use its new power to oversee chemical facilities "quickly and apply it aggressively."

Daniel C. Vock
Stateline.org, Washington, D.C.

GROWING ENERGY
U of I partners in BP biosciences initiative

The University of Illinois at Urbana-Champaign was selected to be part of a $500 million research project sponsored by BP, a multinational oil company, to find ways to produce alternative and renewable forms of energy.

UIUC will join with the University of California Berkeley and the Lawrence Berkeley National Laboratory in the project, called the Energy Biosciences Institute. The university is expected to receive about $100 million for research and will focus on plant feedstocks that can be used to produce biofuels.

BP selected UIUC from a short list of potential partnering schools after visiting a number of campuses, says Stephen Long, a professor of crop sciences and plant biology. "It's an experiment in a way, in which universities are doing business with companies," says Long. "We will be working alongside BP with this. It's really a new model of business/academia interaction."

In 2003, the university established a biomass energy crops research program with assistance from the Illinois Council on Food and Agricultural Research. Since then, a group of 15 researchers, led by Long, has been investigating the potential of *Miscanthus* grass for energy production (see *Illinois Issues*, November 2005, page 8).

Long says using biomass energy could help reduce carbon dioxide emissions linked to global warming. While burning plant material for energy releases carbon into the air, the plants also remove about as much carbon from the air and store it in the ground as they grow, recycling it.

The UIUC team's work so far on *Miscanthus*, a fast-growing, perennial grass that can reach heights of 13 feet, has found it to be prolific. "This is just the wild plant — we haven't started to make improvements," says Long, who has been working with *Miscanthus* for 20 years, first in Europe and now in Illinois. "That's why we're so hopeful that we may be able to do even better than the spectacular yields we've already had."

Photograph courtesy of the University of Illinois at Urbana-Champaign

Student Emily Doherty stands in front of a field of* Miscanthus*, a perennial grass native to Southeast Asia, which is at its maximum height of more than 3 meters.

Photograph courtesy of UIUC

Stephen Long

Plant material such as grasses can be used instead of corn to make ethanol through the developing technology of cellulosic biomass. UIUC researchers have found that in Illinois about 15 tons of *Miscanthus* grass can be produced per acre for conversion to fuel. According to Long, if the grass were bred for improvements to attain that level of production across the Midwest, using 10 percent of the land would be enough to replace about a third of the nation's gasoline.

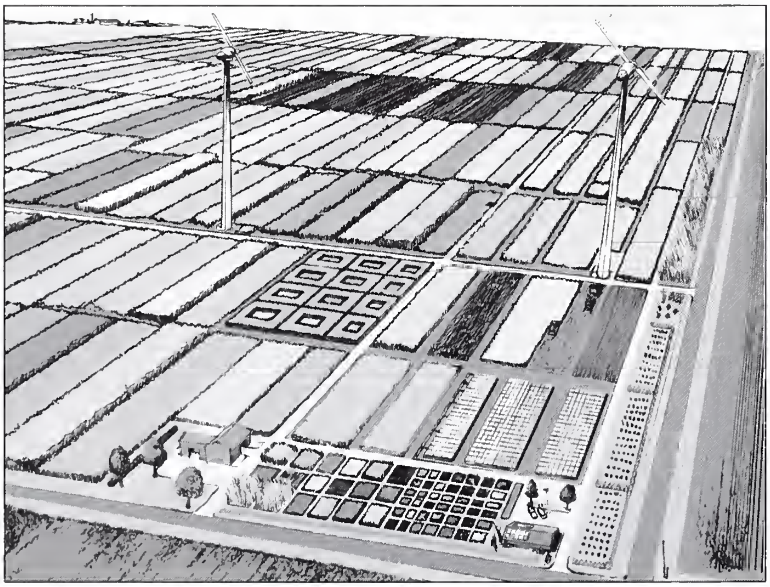
"From the Midwest standpoint, it gives us a chance to be the oil wells."

Long recently attended a White House briefing in which researchers met with President George W. Bush to discuss the prospects for reducing gasoline usage in the United States. Bush has proposed setting a fuel standard of 35 billion gallons of renewable and alternative fuels by 2017.

Under the biosciences institute, UIUC researchers also will be investigating the environmental impact of biomass production, as well as ways to harvest, store and transport the material efficiently. About 340 acres of farmland owned by the campus will be turned into an energy research farm, and field tests will be conducted throughout Illinois and surrounding Midwestern states. The project's new offices will be housed in the Institute for Genomic Biology.

Vera Leopold

Photograph courtesy of the University of Illinois at Urbana-Champaign



This is an artist's rendition of the proposed 340-acre energy research farm, which will be part of the Energy Biosciences Institute.

16th Annual
Motorola Excellence in Public Service Award

Presented by:

The Civic Federation

MOTOROLA

THE LINCOLN FOUNDATION FOR PERFORMANCE EXCELLENCE

Call for nominations:

CRITERIA:

Individuals eligible for nomination are non-elected State or local government officials who must be:

- Heads of major departments or agencies, or chiefs of staff for elected officials, departments or agencies; and
- Employed by the State of Illinois or any of its political subdivisions.
- Current elected officials are not eligible.

Nominees must be currently employed by the State of Illinois or a local government and have a proven record of success in managing important government programs and policies.

TO NOMINATE CANDIDATES:

- Complete the form below and attach a separate sheet with a short (less than 250 word) description of the nominee's achievements and suitability for the award.
- Email to: OutstandingPublicServant@civicfed.org
- **OR** mail to: Attention: Outstanding Public Servant
  The Civic Federation
  177 N. State Street, Suite 400
  Chicago, IL 60601
- Supporting evidence (including newspaper articles) is also very helpful to the selection committee.

Deadline for nominations is June 30, 2007.

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❑ **Check here if you would like to be invited to the awards luncheon.**

Name of nominee (title and affiliation on separate sheet, please)

Your name

Nominee's phone number (for selection committee use only)

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Nominee's email address

Your telephone number (include area code)

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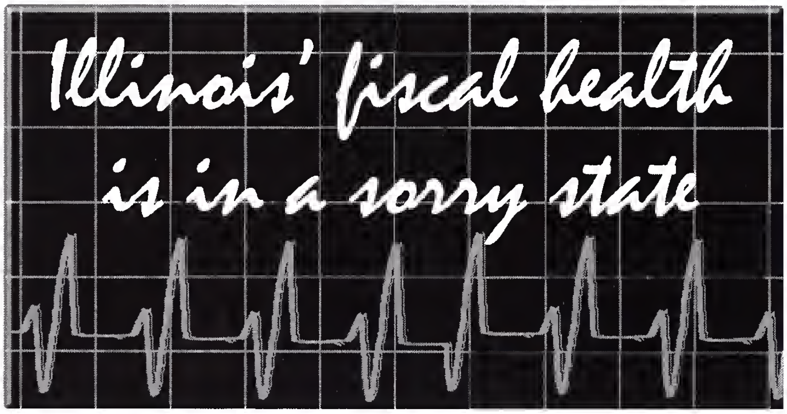
Grim prognosis



by Charles N. Wheeler III

"Run government like a business." We've all heard the familiar refrain, typically as a pledge from a political candidate or as a demand from a government critic.

Forget for a moment that government is not like a business, in which bottom-line concerns like profits and market share dictate decisions. Rather, government exists to provide public services that its constituents deem are needed. Imagine instead that the state of Illinois really is Illinois Inc., with Gov. Rod Blagojevich as its chief executive officer. Were that so, chances are good Illinois would be in federal bankruptcy court looking for Chapter 11 protection from its creditors and a green light to dump its mega-billion-dollar unfunded pension liability, all the while shedding jobs and cutting services.

Alarmist? Not according to reports from a variety of state budget-watchers, including government officials, nonpartisan think tanks and business leaders. Consider these facts:

• Not since 2001 has the state posted a budgetary surplus at the end of its fiscal year, according to data from the office of state Comptroller Dan Hynes. When the books were closed last year on FY 2006, the budgetary deficit was $291 million, the difference between cash in the bank on June 30 and FY 2006 bills remaining to be paid through August.

• The current FY 2007 budget masks deficit spending of some $3 billion, largely by delaying payments to Medicaid providers and underfunding pension systems, according to the Center for Tax and Budget Accountability, a Chicago-based research and advocacy think tank.

• Last September, Hynes warned that all likely revenue growth in the next few years will be needed to meet commitments in just three areas — pensions, debt service and Medicaid — which are expected to increase at a $1-billion-a-year clip.

• "Illinois is headed toward fiscal implosion," warned the Civic Committee of the Commercial Club of Chicago in a report issued last December. The group of top business leaders pegged the state's debts and unfunded long-term obligations at about $106 billion.

The Prairie State's sorry fiscal condition stems not from political chicanery nor wasteful spending. Rather, it's the inevitable consequence of the growing mismatch between the cost of providing such essential services as education and health care and the resources generated by a revenue structure not well-aligned to the state's economy.

There are a number of big-ticket commitments that have state finances foundering.

For starters, the state supports five retirement systems covering state workers, public school teachers outside Chicago, higher education personnel, judges and legislators. Each is a defined benefits plan, in which retirees are guaranteed a fixed amount, based largely on length of service and final salary.

The systems are funded by a combination of employee contributions, appropriations from the state as the employer and income earned on the invested cash. Ideally, the three sources should provide sufficient dollars each year to cover benefits paid to current retirees, as well as the projected cost of future benefits to current workers.

For decades, however, governors and lawmakers haven't set aside as much money as they should have, based on actuarial estimates. Instead, scarce dollars went to more immediate, pressing needs, such as education, health care and human services. The past two budgets, for example, allocated some $2.3 billion for pension funding, roughly half the amount required under a 1995 law designed to bring the systems to a 90 percent funding level by 2045.

What is the result of this chronic short-

fall? As of last June 30, Illinois' pension systems faced an unfunded actuarial liability of $40.7 billion, the largest in the nation, eclipsing by far second-place Ohio's $30 billion gap, and more than five times the national average.

To get back on track for 90 percent funding by 2045, state contributions from the general funds will have to more than double in the next three years, to $3.5 billion in FY 2010 from $1.4 billion in FY 2007. For the coming budget year, which begins July 1, the required contribution is $2 billion, some $600 million more than in the current budget.

Illinois cannot dump its pension responsibilities on the federal government, as some financially beleaguered corporations have done through bankruptcy, nor can the state slash future benefits — they're protected by the Illinois Constitution. So even were the pension systems to be abolished this moment, the state would be on the hook for more than $40 billion in unfunded benefits already earned by workers.

In addition to the huge sums owed the retirement systems, Illinois has borrowed tens of billions of dollars by selling bonds over the past 35 years to build roads, bridges, schools, prisons and a host of other capital projects. Much like a homeowner with a mortgage, the state repays the money over time, making annual principal and interest payments until the debt is retired.

In 2003, though, Blagojevich sold $10 billion in pension bonds with a new wrinkle, a repayment schedule that included interest-only payments — but no principal — until FY 2008. The governor used $7.3 billion of the bond sales to shore up the pension funds and the remainder to pay for ongoing programs.

The 2003 sale more than doubled the state's total debt load, to $18.8 billion from $7.6 billion, placing Illinois sixth in the nation for tax-supported debt per capita, according to an analysis by Moody's Investors Service, a national bond-rating agency.

As a result, the state's debt service — principal and interest payments — jumped to $1.4 billion from $973 million the year prior to the pension bond sale. For the coming fiscal year, debt service is projected to be $1.7 billion, up $83 million from the current figure, including the first $50 million principal payment on

Q&A Question & Answer

J. Thomas Johnson

He was chosen president of the Taxpayers' Federation of Illinois a year ago this month. Prior to that, he was a state and local tax partner at accounting firms Grant Thornton and KPMG.

He served on the Illinois Gaming Board from 1990 to 1999, becoming chairman in 1993. Through the 1980s, he served in Gov. James Thompson's Cabinet as director of the Department of Local Government Affairs and then the Department of Revenue.

He was a technical adviser on the state finances report issued recently by the Civic Committee of the Commercial Club of Chicago. This is an edited version of his conversation with Illinois Issues *Executive Editor Peggy Boyer Long.*

Q. Do you think the state has a structural deficit?

It definitely does. How do we measure that? We have determined that the normal growth rate of our own source revenues is about 4 percent a year, excluding transportation funding. About 75 percent of our revenue sources have normal economic growth potential, while 25 percent of the revenue base doesn't grow at all because it tends to be consumption-based taxes, or the tax base is becoming a smaller part of the market activity in which it operates. It appears that the spending growth rate, if we continue to spend at historical levels and meet the required increase in pension fund contributions, will grow at about 7.5 percent a year over the next three years. That reflects a structural deficit.

Q. We've seen dollar estimates that range up to more than $100 billion of unfunded debt, depending on what's counted. What are you counting?

Now that's another component of the structural deficit. In my previous comments I was just addressing what we currently bring in versus what we spend. In addition, there are some programs that we are not providing required funding, even though we are incurring a liability.

The primary one is health care for retirees. Currently, we just pay the premiums as we go from year to year. We have not set aside assets like we do in our pension funds for future liabilities associated with the promises we've made to retirees for health care benefits after they retire. At the end of fiscal year '08 — June 30, 2008 — the state is required to report that liability, as are all state and local governments. Then we'll officially know what we owe for this program. The Civic Committee of the Commercial Club of Chicago has estimated that liability could be in the $47 billion range, which equals the under-funded pension liability of $46 billion.

My explanation of that 4 percent to 7.5 percent structural deficit doesn't take into consideration the retiree health care benefit costs.

When all is said and done, we shouldn't be surprised that Illinois, with all of its liabilities that are not currently funded, may have the largest unfunded debt of any state in the nation.

Q. Some have used the word bankruptcy. What would it look like if we don't address this?

The tax burden that will have to be imposed on future generations will be far above the national average in order to pay these costs that we haven't been funding properly for the last 30 years. Either that, or we will have to underfund government programs, probably education. The citizens

the pension bonds, according to a report from the Commission on Government Forecasting and Accountability.

The problems don't end there. More than 2 million Illinois residents are covered by Medicaid, the joint state-federal program that provides health care for low-income families, people with disabilities and seniors, with a current budget of some $12 billion. As health care costs have risen in recent years, Medicaid spending has outpaced both the rate of inflation and state revenue growth. As a result, the state has lacked the cash to make timely payments to providers, and hospitals, doctors, nursing homes and others complain about having to wait months before they're paid for the care they have provided.

Meanwhile, Blagojevich last summer kicked off All Kids, his program to insure health care coverage for every child in the state, regardless of family income. The governor is counting on underwriting the new initiative with savings achieved by moving most Medicaid recipients into managed care, but it's too soon to know whether the math will work.

What is clear, however, is a growing tendency by the state to roll over Medicaid bills from one fiscal year into the next. Under a provision of the statutes governing state finances, Medicaid costs incurred in one fiscal year can be paid from the following year's appropriations, unlike most other expenses. Such deferred Medicaid liabilities totaled $2.7 billion in FY 2005, almost triple the $972 million rolled over five years earlier, according to the comptroller.

Continued inflation in health care costs nationally, coupled with an increasing aging population, "suggests that the program will continue to grow at a rapid pace going forward — perhaps in the range of 9 percent per year," the Civic Committee estimated, well above likely revenue growth.

What about education? The Illinois Constitution declares the state has the "primary responsibility" for funding public schools, but local property taxes have covered most of the costs of K-12 education for as long as anyone can remember. As a result, the dollars available

of this state will suffer, either by having too high a tax burden, or the tax burden that they are having to bear will not be buying the level of government services that will be available in other states that have met their funding requirements in these areas.

Q. Couldn't we just wait for the economy to recover?

There are two components to our revenue system that don't allow it to grow as much as it does in other states. First of all, our constitution prohibits a graduated income tax. Those states that have surpluses generally have a higher income tax burden on their citizens and do so through a graduated tax rate structure.

Graduated tax structures produce greater growth rates because of what is commonly referred to as bracket creep. Illinois does not have that because of the flat rates, so even in a recovering economy — and we've had a pretty good economy over the last two years — our revenue system will not respond as generously as other states' revenue structures will.

The other significant component of our revenue base is the sales tax. We have a relatively narrow-based sales tax. It doesn't tax very many services, and services have been the greatest growth area of our economy for the last 20 years. As a result of not capturing this economic growth in our tax structure, our sales tax revenues will be more anemic than will other states' because they have broader-based tax structures that include an array of consumer services.

Q. Could we cut spending enough to solve the imbalance?

First, we should put a dollar value as to this structural deficit. It's about $5 billion annually — if we have no program expansion but we meet our obligations to our pension funds and we set aside assets for health care for retirees.

Certainly, the Civic Committee doesn't think there's enough expense reduction that can be achieved to close that gap, and I tend to agree with them. The amount of cutting that would have to be done to eliminate our structural deficit would mean a significant reduction in educational funding levels, undoubtedly, because that, along with health care for those in need, makes up the bulk of current program spending.

There are a couple of areas I think where cost containment could generate in excess of $1 billion in savings. Re-evaluating the benefit structure of our public employee pension programs and the health care coverage we provide our employees and those in need under our Medicaid program provides some opportunity. We believe in the greater use of risk-based managed care, where the focus of attention, or the burden of not having healthy employees or not having healthy recipients under our Medicaid program, is borne in part by the insurer rather than totally by the taxpayers.

We think these areas should be reviewed first before we ever go to the taxpayers to ask them to address the other aspects of the structural deficit.

Q. That leaves a deficit of about $4 billion. The other side of the equation, then, is the revenue structure. How does ours stack up to other states?

We, like other states, have a relatively balanced dependency on three major taxes. I'm putting aside transportation in this entire discussion because it historically has been funded by a tax on fuel that's used on highways and vehicle and driver's registration fees. The other three major sources of revenues for state and local governments are the income tax, the sales tax and the property tax, which you would typically find in most states. There are a few states that don't impose an income tax. There are some states that don't impose a sales tax. And when you look at those states, they tend to have another unique tax to make up their revenue needs. But most states use some balance among the three major taxes.

Now, how does Illinois' measure up? We are less dependent than the national average on the income tax and sales tax, and we're more dependent upon our property tax to fund our state and local governments than the national average.

An interesting part of the sales tax is that, even though we're below the national average when it comes to how much is

for each child's education vary widely from school district to school district, with some schools in well-to-do suburbs able to spend $12,000-plus per pupil while others in economically distressed communities and rural Illinois struggle to reach half that level.

To address the inherent inequity, the state over the years has tried to funnel more dollars to property-poor districts. A special panel — the Education Funding Advisory Board — was created in 1997 to recommend the minimum amount needed to provide an adequate education to youngsters, based on actual outlays in high-achieving, low-spending districts.

In recent years, however, state aid allocations have fallen short of the amount required to meet the Funding Advisory Board's recommended "foundation level," last set at $6,405 in April 2005. For the current school year, the actual level is $5,334, about 17 percent less.

Although the state's responsibility for funding schools at a certain level is not as legally binding as some of its other obligations — such as pensions and debt service — the Civic Committee argues the state has a commitment to guarantee at least the foundation level for each child.

Adjusting the 2005 figure for inflation, some $2 billion more would be needed to cover fully the advisory board's recommendation, according to the Center for Tax and Budget Accountability.

The state's current commitments clearly exceed its resources, yet the imbalance has not dissuaded Blagojevich and others from advocating costly new initiatives. In his inaugural address, the governor pledged to bring affordable, accessible health care to all Illinoisans. While he offered few details on his plan for universal health care, a task force studying the issue in January proposed a plan to cover almost 90 percent of the state's uninsured at a cost of more than $3 billion to the state and some $1.5 billion to employers. Meanwhile, a coalition of business and labor leaders in February called for a $25 billion, five-year program to repair and expand the state's road and transit network.

Adding up everything the state owes — not even counting the bright new ideas — should leave no doubt that Illinois is hardly run like a business. ❑

produced on a per capita basis, we have one of the highest rates. And that goes back to the issue of the narrowness of the base.

On the income tax side, we've got a relatively low rate on individuals. The corporate rate is closer to the national median when you combine the regular income and replacement income tax that's associated with the abolishment of the personal property tax. But on the individual side, middle- and higher-income individuals are taxed at relatively low effective tax rates compared to the national norm. As a result of that, our amount of per capita production from the income tax is lower in comparison to the national average.

Q. Is our tax structure stable?

Well, the most stable tax of all three of them is the property tax. It's very predictable.

The income tax on individuals and the sales tax had been very predictable as well. But what we realized right after 9/11 is that, for the first time, those two revenue sources actually decreased compared to previous years' levels. We always had a growth rate potential over the history of both taxes because of the general growth rate in the economy and the effects of inflation in the economy. So those taxes have been good, though not as good as the property tax.

The corporate income tax is a very volatile tax because of swings in the economy. Even though, during recessionary periods, there are fewer people employed and the growth rate of wages may be less, it still has historically produced an overall growth rate in the personal income tax. But on the corporate side, when you run into companies losing money as a result of economic downturns, the amount of revenue from one year to the next can decline significantly. And in the years 2001 through 2003, we had declines in double-digit rates.

Recovery years also tend to be volatile, in a positive way. The last three years, our corporate income tax receipts have increased at a much faster rate than personal income tax receipts. But it's a volatile tax. And if you get too dependent upon a volatile tax, then you have to have an ability to control spending in programs in a much more aggressive way than government generally can.

Q. One of your predecessors here at the Taxpayers' Federation used to joke that the only fair tax is a tax on hair oil, and that was because he was bald. One of the problems you get into when you try to design a tax structure is what criteria you use to assess fairness. Do you judge our system as it's currently structured to be fair?

I wouldn't say it's fair. Our tax structure tends to put a higher burden, if you measure the burden by a percentage of income, on lower-income people than you will find in most other states. And the reason for that is the flat rate income tax and the high-rate, narrow-based sales tax. The 3 percent personal income tax rate is very attractive to people in the middle-income and higher-income levels because it's a very low rate in comparison to other states. That same 3 percent rate is a relatively high rate for low-income individuals in comparison. A graduated system tends to start at lower rates and go up to higher rates than Illinois' 3 percent flat rate.

And the sales tax, because it's limited to goods rather than services, tends to put a greater burden on low-income people. The percentage of personal consumption of goods for low-income people is higher than it is on services. And so the sales tax tends to be regressive because of the narrow base we have in Illinois. If you expand it to services, then it becomes slightly more progressive, certainly more progressive than the current structure, but not as progressive as other types of taxes.

But those two things together — narrow-based sales tax on goods and a flat-rate income tax — tend to put a higher tax burden on lower-income people in our state than you would see in other states.

Q. You're saying we have a tax structure that is not responsive to

the economy, is not particularly stable and tends to be unfair. Are you suggesting we should revise that structure?

I think you can make a lot of changes within the current tax structure. And one of the things I think is important is to have a tax structure that is comparable to other states as to form and burden because economic activity can flow pretty freely in this country. If you have an unbalanced tax structure in comparison to other states, then it could cause people to make investments differently.

Q. What do you suggest?

Certainly the Civic Committee's recommendations to look at the rate structure of the income tax and some progressivity aspects, or lack thereof, of the income tax can be done within the current structure. And there needs to be a strong look at our sales tax base to see whether or not we should continue to be dependent upon taxing the sale of goods at high rates compared to all consumption at lower rates. Those two things together would affect the fairness, and it would make the tax structures more productive as to revenue growth rates.

Q. You could capture more money?

Not only more money. The growth rate in revenues is important. You need to have a revenue system that will grow at the rate of the growth of your spending. Given what government's role is — it's so much focused on health care and education — the question is do those two cost components grow at a faster rate than the general economy, and certainly health care has historically done so. That puts a lot of pressure on the revenue system, and a structural deficit develops.

Q. You imply that we might want to look at a graduated income tax. That, of course, would require a constitutional amendment.

I think it would be very challenging to get a constitutional amendment adopted. But you don't have to change the rate to get more progressivity out of an income tax. You can make an income tax more progressive through the form of exemptions or credits. For example, we now have relatively low personal exemptions — $2,000 per person — but they're available to everybody along the income scale. And there have been other proposals, such as family credits and so forth, that are a component of the school funding reform package that has been introduced in the General Assembly. And that should be evaluated.

But I'm concerned that if we adopt a system to modify the personal income tax structure to make it more progressive that we coordinate the various tax credits and exemptions to avoid duplication of purpose. If I was doing it, I would probably look at all the credits we have in our income tax structure and see if they should be melded into one that tries to address the fairness issue.

Q. What about revisiting large exclusions, like pensions?

That's one thing that we think should be looked at as well. We think there's no policy justification for exempting all retirement income because, let's face it, sometimes the higher-income individuals have very significant retirement incomes.

One of the phenomena that occurs is, if you contribute to a 401k or an IRA, your contributions are not taxed as you deposit them and they're not taxed when you make withdrawals. Well, who within our society contributes large amounts to 401ks and IRAs? People who tend to be at the higher income levels. So in a flat-rate tax structure those deductible contributions and the lack of taxation of withdrawals produce a lower effective tax rate than lower-income levels, and that's hard to justify.

Most other states exempt some retirement income up to a certain level. The federal government does it on the Social Security side where, if your taxable income is less than a certain amount, Social Security benefits are not taxed at all. If it's above that amount, they are. We should look at that.

Q. One proposal would eliminate the corporate income tax and establish a tax on business' gross receipts. How does that proposal fit into this discussion of fairness and effectiveness?

A gross receipts tax gets into this other area I talked about earlier, which is the uniqueness of tax structures. When a state has a tax that is not what you normally see in other states, you have to be careful that you understand the economic consequences of the tax because it could cause businesses to modify their economic activity. And a gross receipts tax is a perfect example of that.

The problem with a gross receipts tax is, one, it's a hidden tax. It's buried in the price of goods through a supply and distribution chain. And the more the activity of making something in Illinois occurs through Illinois suppliers, the heavier the tax burden. So this is a tax that is going to place a very high burden on Illinois-produced goods, even those that are exported for consumption other places. And it doesn't tax at all imported goods or services.

Q. The explanation, though, is that exports will be sliced out.

In a gross receipts tax, exports are always exempted. But what's not understood is that only the export sale is exempt. All of the inputs along the production and distribution chain are taxed. There's a lot of buried tax in the produced cost of that good, even though you may not tax the last transaction as it's shipped outside the state.

If you compare it to other states that don't have a gross receipts tax, or do but at a significantly lower rate, you'll say why shouldn't I buy it from somebody outside the state. It's especially onerous on small business because small business tends to have a local supply chain. All of its inputs would be taxed. Larger businesses may be buying some inputs from outside the state, and those would not be taxed so their buried tax cost would be less.

Q. There has been an argument to protect small business by stepping up the level of profits before the gross receipts tax is applied.

That's a little tricky, as well, because who is a small business buying their inputs from? Let's say farmers who may qualify because they have less than a million dollars' worth of gross receipts. But who

do they buy their fertilizer from? Who do they buy their corn seed from? Who do they buy their machinery from? They tend to buy from companies that would not be eligible for the exemption. So all of the embedded tax costs on the business inputs are still in that cost structure for that small business, even though their sales would be exempt.

Q. What about the consumers?

If you look at most tax incidence studies, consumers bear the greatest percentage of any business input tax structure, whether it be a sales tax structure or a gross receipts tax structure. To a lesser extent, economic studies show labor bears some of the tax. Lower wages, less benefits, that type of thing.

The bottom line is the seller has to be competitive. And if his costs are higher because of a tax structure, compared to production in other places, something has to give.

Q. The argument for the gross receipts tax is that corporations aren't paying their fair share of the total take on the income tax.

What we need to understand is that more businesses are not treated as corporations for tax purposes. Income may be taxed at the individual shareholder level in their personal income tax returns. More and more businesses have chosen to be formed as Partnerships, Subchapter S corporations, LLCs, LLPs, and one of the benefits of the structures is that you can avoid double levels of taxation, one at the corporate level and again when the income is distributed in the form of dividends to the owners.

In 1980, 1 percent of the personal income tax base was income from businesses. Today it's 7 percent. You have to take into account the amount of business income that is reflected in the personal income tax structure in comparison to prior periods.

Q. Do you think Illinois is ready to broaden the sales tax base? If so, what would you include?

Let's face it, in Illinois we're generally not ready to make any significant changes in our tax structure. For whatever reason, we've had a hard time trying to explain to the public why it's necessary, why it's fair. So are we ready to expand the sales tax? I don't know. But I do think that we as an organization have a responsibility to try to communicate what is a fair tax structure. How do you justify, for example, that we're going to tax you at very high rates if you consume an item of goods such as clothing, but we're not going to tax you at all if you decide to spend the same dollars going to a movie or getting a haircut?

I often say to people that when we exempted food from the sales tax base, we made the sales tax more regressive. Now why do I say that? Food sold to people who were eligible to pay for that food with the use of food stamps was never taxed. And in order to afford the exemption on food, we raised the rate on everything else low-income people purchase and pay tax on in order to exempt the sale of food to middle- and high-income people.

Q. If we were to broaden the base, are there some things you think ought to be exempted in the interest of fairness?

One would say a broad-based consumption tax shouldn't exempt anything. But I think there's always the issue of health care, whether it be doctor's visits or medicine or hospital stays. Should that be taxed? To be honest with you, it's a form of consumption. And we're looking at how to make the consumer of health care services more responsible for what they consume. And if the consumer doesn't have to pay, then there isn't as much competition in the marketplace.

Q. Some of the tax reform proposals would swap property tax relief for a higher income tax rate. What's your thinking on that?

The property tax structure produces a lot of revenue in this state, in excess of $20 billion a year, compared to the income tax and sales tax combined. So it's a big item. And 60 percent of property tax revenues go to education.

The problem is, though, if we talk about broad-based property tax relief, I don't think we'll ever meet the taxpayers' expectations. I'll give you an example. You often hear that the goal is to provide property tax relief to the tune of 25 percent of the educational operating rate for schools. I know what that means. It's 25 percent of about 50 percent of the tax bill, or 12.5 percent. What the person heard was that they were going to get a 25 percent property tax reduction. Normal growth rate in property taxes is 4 percent a year. So I'm expecting a 25 percent reduction. But what was really promised was only 12.5 percent. And the first year that you get the relief, the property tax bill declines 8 percent — 12 percent minus the normal growth rate of 4 percent. In the second year, half of that is gone. And in the third year it's all gone. But in order to do that, we had to create a new tax structure to produce somewhere around 2.5 billion dollars. Those taxes will continue. The relief will be gone.

I think this would produce a tremendous amount of cynicism in the public's mind. I was promised something and it was not delivered. Broken promises are a problem for government. And so I think we need to be very careful. I think we need to do a better job of educating people about what is an effective tax burden.

To be honest with you, the effective tax rate on residential property in parts of our state is lower than the national average.

Q. It's especially bad in some areas. How do you solve that?

It's an economic development issue. Broad-based tax structure changes are not going to solve those individual high economic stress communities' problems.

Q. What are the chances anything is going to happen soon?

It's very unpredictable. As we know, there are lots of competing interests right now with different champions. The governor appears to be most concerned about health care financing and expansion. The Senate president appears to be most concerned about educational funding reform. The House speaker appears to be most concerned about the structural deficit that we're facing in this state for existing programs and the long-term debts associated with those programs. And there's other interest in significant new revenues for capital funding, whether it be transportation or school construction. All of them require large demands of resources.

How this will all work out in the long run, I don't know. ❑

The price of promises

As health care costs rise, the state might consider trimming the benefits it offers its own employees

by Bethany Carson

Photograph courtesy of the U.S. Administration on Aging

Health insurance for public retirees used to be considered a throw-away benefit, according to Keith Brainard, research director for the National Association of State Retirement Administrators. It used to be OK to say, "Yeah, we'll throw that in too."

But nationwide, the annual cost of providing public retiree health insurance now hovers around $25 billion, making states reconsider the promises they'll make to future public employees.

"When most of these retiree medical benefit structures were enacted 10, 20, 30 years ago or longer, medical benefits were not nearly as expensive," Brainard says. "And medical inflation was not nearly as high as it is now."

In Illinois, this benefit carries a nearly $2 billion price tag. The long-term cost of providing health, dental, vision and life insurance options to its public employees and retirees has jumped 7.4 percent over last year's $1.8 billion liability, according to the Illinois Department of Healthcare and Family Services. The bipartisan Commission on Government Forecasting and Accountability estimates that increase at 8.9 percent.

The 346,000 Illinoisans enrolled in the health benefit include state employees, their dependents and retirees. Teachers, university employees, lawmakers and judges have their own separate health systems with similar benefits. Gov. Rod Blagojevich's main administrative agency, Central Management Services, handles all the paperwork and administrative support for the benefits, but the Illinois Department of Healthcare and Family Services manages the contracts with the health insurance companies.

But no agency — as in most states — really knows how much money Illinois should set aside to satisfy the state's promises of providing health benefits to retirees. That's because, until this summer, the state has relied on a pay-as-you-go system by calculating only the benefits claimed in that fiscal year. That has relieved the state from having to set aside revenue to cover the cost over the long term of retirees' health benefits.

Starting in July, however, new accounting standards will pressure state and local governments to disclose their actuarial liabilities, which is the current value of benefits already earned by employees and the benefits they're expected to earn in the future. The rule was issued by the Governmental Accounting Standards Board, a nonprofit, nonpartisan organization created to improve the rules for governments' accounting of finances and reporting to the public.

Disclosure of the costs related to retiree health benefits and other nonpension benefits could put more pressure on state and local governments to figure out how to curb those long-term obligations.

The timing of the national accounting rules coincides with the onset of Baby Boomer retirements. As more public retirees start drawing on their Illinois pensions, they will be able to take

advantage of "premium-free" health benefits. They have been promised 100 percent of their monthly premiums as long as they have spent at least 20 years on the state payroll. The state's share drops to 5 percent for retirees who put in between eight and 20 years of service.

Paying for these past promises will force the state to think twice about future promises. In other words, Illinois may need to weigh whether it should revise the benefits offered to new employees long before they retire.

One solution might be to mimic the private sector by offering less generous health benefits in retirement and requiring new employees to pay more of their own health care costs. Both tactics would be politically challenging because making those changes wouldn't pay off for another few decades.

Currently, the state pays much more of the cost of employee health benefits than the private sector does, a point highlighted in a foreboding report issued late last year by the Civic Committee of the Commercial Club of Chicago. The business group warns the cost of employee and retiree health benefits have grown by about 14 percent a year since 2000, far exceeding the 4 percent revenue growth during the same time.

The committee suggests Illinois should scale back subsidies and require state employees to enroll in a type of health insurance plan called managed care, which is expected to cost the state less. Managed care, because it requires everyone to have a primary care physician who serves as a gatekeeper for referrals, reduces the chance of redundant — and expensive — tests or procedures. Further, managed care sets boundaries with a preferred network of providers who are under contract with the state.

"Managed care programs tend to be less expensive because you're getting some control over medical care interaction," says Stephen D'Arcy, a John C. Brogan Faculty Scholar in Risk Management and Insurance and a finance professor at the University of Illinois at Urbana-Champaign. "[HMOs] have incentives for keeping people healthy, for intervening early on in the disease in order to have a minimal amount of treatment."

Most of Illinois' state employees, not including teachers or university workers, are enrolled in managed care plans, but another 40 percent, or 135,000 people, choose an option that is more expensive for the state. These patients can see any doctor, and the state uses a different way to pay the providers. Unlike managed care plans, D'Arcy says, such "fee-for-service" systems provide an incentive for doctors to prescribe more tests or procedures because their payment is based on the number of services rendered.

The Commission on Government Forecasting and Accountability says the state could save money by encouraging more employees to enroll in managed care options. The commission's March 2007 report says, on average, each managed care patient costs the state $4,367, compared to about $5,939 per person in the indemnity plan, in which patients can see any doctor they choose.

But switching a few thousand more state employees to managed care wouldn't really solve the state budget crisis, says Sen. Christine Radogno, a Lemont Republican and commission member. She's also a one-time candidate for state treasurer and the GOP budget negotiator for her chamber.

There are other factors that help drive up costs for the state. For instance, about 325,000 former teachers are enrolled in the Teachers' Retirement System with its own health benefit plan, according to that system's 2006 financial report. In fiscal year '05, more than half of teachers who retired took an early retirement option that allowed them to work their final days before they turned 60. They had to work between 20 and 35 years to qualify. That's expensive for the state, Radogno says.

"To have folks retire at age 55 and then live to be 85, 90, is probably not something that was envisioned when these plans were set up. It's just becoming a huge problem."

A longer life span and 15 years of health-care inflation contribute to the state's ballooning costs, a problem the Blagojevich Administration says it has taken steps to solve.

The administration already has mimicked the private sector and prioritized efficiency, says Becky Carroll, the governor's deputy chief of staff for budget policy and communications. "We are always looking for new and efficient ways to save the state money: better, faster, cheaper, without compromising on the benefits owed to our state employees or to the public."

Shortly after taking office, Blagojevich issued an executive order that consolidated the state's health-related functions, including contracts for the state employee health insurance, under the Department of Healthcare and Family Services.

"It increases our purchasing power and procurement power," Carroll says. "Having it all under one roof with one set of experts is a more efficient way of managing."

Blagojevich also banned stockpiling of vacation days, meaning state retirees can no longer cash in

Photograph courtesy of the U.S. Administration on Aging

Keith Brainard of the National Association of State Retirement Administrators says states tend to accumulate the largest long-term costs for retiree benefits by offering open-ended promises of providing health services.

Photograph courtesy of the U.S. Administration on Aging

more than $100,000 in unused vacation days when they leave state service. They're limited to carrying over five vacation days a year.

The state also expanded the availability of the managed care plans to more regions of the state and renegotiated health care contracts, including adjusting health benefits for members in bargaining units of AFSCME Council 31, which represents state, county and municipal employees. The new AFSCME contract alone saved $34 million and was part of $216 million saved by revising health care procurement and employee benefits, according to an October 2005 report by Deloitte Consulting LLC commissioned by the governor.

Most of the low-hanging fruit has been plucked and squeezed for savings, says Carroll. "There's much slimmer pickings these days."

However, she adds, the new federal accounting rule could help focus the debate on ways to do things more efficiently without compromising the quality of services. The state might get more bang for its buck, for instance, by honing in on the types of promises it makes to future employees.

Brainard of the National Association of State Retirement Administrators says states tend to accumulate the largest long-term costs for retiree benefits by offering open-ended promises of providing health services. He says it would be cheaper to offer a close-ended "defined contribution" plan, in which the state vows to pay a specific amount toward an employee's medical premium each month.

There also are plenty of other ways to tweak public retiree medical benefits. States could require higher deductibles, higher co-payments or even a lifetime limit on the benefit.

Radogno says she supports looking into higher co-pays and the concept of health savings accounts, which are high-deductible plans that put the consumers in charge of the way they spend their health care dollars. The minimum deductibles cost $1,100 for coverage of an individual and $2,200 for family coverage, but the federal government offers a tax incentive.

"[Higher co-pays and health savings accounts] are good because it makes people connect that whatever they're doing has a cost to it," says Radogno. "It may even impact, ultimately, behavioral choices."

Smoking, being overweight or not exercising, for instance, could cost the consumer more money. "I think anything to bring the consumer into the whole payment mix, along with the insurance companies and the hospitals, is a good thing," Radogno says.

In the past, however, health savings accounts haven't been practical for the chronically ill. Some of the most prevalent diseases tend to be the most costly for employers because patients are more likely to have hospital stays, sick days and expensive prescription drugs.

The Center for Studying Health System Change, a nonpartisan policy research group in Washington, D.C., issued a report in February that lists other "innovative" ways to get the consumer more involved in his or her health care. Instead of discouraging employees with chronic conditions from using their health benefits, some companies are giving incentives to enroll in "self-funded" medical plans and to practice preventive health.

One is Connecticut-based Pitney Bowes Inc., which employs 35,000 people worldwide and helps businesses manage their physical and electronic mail with "mailstream technology." Its U.S. employees who have asthma, diabetes and high blood pressure pay only 10 percent of the cost of refilling their prescription drugs each month, as opposed to the 20 percent to 50 percent under other insurance plans. Pitney Bowes has seen a decrease in costs for emergency room visits and the use of sick days as a result, says company spokeswoman Elizabeth Pytka.

New for 2007, she adds, is that Pitney Bowes will provide free medication that research has shown helps lower bad cholesterol and triglycerides for people who have diabetes or who have had a cardiac event.

But the Health System Change report says expanding similar changes to more diseases could face industry barriers. There isn't enough evidence for more companies to follow suit. Though the federal government loosened requirements for health savings accounts late last year, the so-called consumer-directed accounts still aren't flexible enough to appeal to more employers, the report says.

State Sen. Jeff Schoenberg, an Evanston Democrat and co-chair of the Commission on Government Forecasting and Accountability, says mimicking the private sector may not be the answer for reducing the state's various health care costs.

"The fundamental difference between the private sector and the public sector is that we have an obligation not to throw people off the side of the boat," he says.

Still, as pressure increases for Illinois to expand health care to all, lawmakers might need to take a closer look at the long-term promises that are made to the state's own employees. ❑

Can we make schools accountable?

As Illinois lawmakers debate school spending, they're looking for ways to boost student achievement

by Deanese Williams-Harris

Photograph courtesy of Grow Your Own Teachers Illinois

Jennifer Cruz, Maria Velez, Maricela Contreras, Michelle Rodriguez and Yolanda Rodriguez of the Maestro Sin Fronteras project participate in a study group for their literature class. The group is based in Chicago's Logan Square neighborhood, one of 10 areas in Illinois participating in a Grow Your Own Teachers initiative.

At a minimum, lawmakers will need to agree this spring on how much to spend on elementary and secondary education this next fiscal year. They could, as some advocate, find new ways to come up with the dollars — and devise a more equitable way to distribute them. But even if they pass this test, there's another politically tricky question they could be called on to answer: How can schools be held more accountable for the money they get? So far, they're leaving that answer blank.

What, after all, does accountability mean? There's no clear set of definitions, says Mary Ellen Guest, a campaign manager for A+ Illinois, a coalition of education advocates. "Accountability is a very charged and loaded term, and when teachers hear it, they think about more testing and more pressure."

Test scores do provide a means for measuring teachers' ability to get through to students. But one result of the 2002 federal No Child Left Behind Act is that test-driven accountability is now the norm in public schools, according to the Center on Education Policy, a nonprofit research institute and advocacy group in Washington, D.C.

Under the federal act, students' test scores must improve each year or the district is penalized. The process is

Advocacy groups argue that a one-size-fits-all policy to measure accountability is unfair, particularly in such an economically diverse state as Illinois.

meant to highlight the academic areas that need improvement. Yet it has piled more pressure on some teachers in districts that have limited financial and staff resources. Those that fail to improve test scores from year to year may be subject to such sanctions as allowing students to transfer or requiring districts to offer tutoring services. Schools that haven't met the standards for five consecutive years or more can face a takeover by the state, which then would direct curriculum, leadership and staff.

Advocacy groups argue that a one-size-fits-all policy to measure accountability is unfair, particularly in such an economically diverse state as Illinois.

"How dare people compare teacher performance of New Trier district to those in Chicago or Effingham that have less resources," Guest says. That's why she favors an assessment that grades teachers on gains children have made throughout the year. Under that plan, if a child comes into a third-grade classroom reading at a first-grade level but advances by the end of the year, the teacher would receive recognition for that progress.

But the challenges of dilapidated buildings, high teacher turnover and substandard resources affect teachers' abilities to do their jobs.

"Teachers want to be accountable, but they also want the measures of accountability to be carefully thought out and applied," says Gail Purkey, spokeswoman for the Illinois Federation of Teachers, a union affiliated with the Illinois AFL-CIO.

The A+ Illinois coalition released its new policy platform last month with recommendations on ways districts should be critiqued. In addition to changing the way the state funds education, the group calls for a third party to serve as a watchdog for schools' operational and financial problems. It also wants evaluations on how well students are learning.

This year, Gov. Rod Blagojevich proposes setting aside $10 billion for education over the next four years, starting with $1.5 billion in fiscal year 2008. His Helping Kids Learn plan includes provisions designed to make schools accountable for the education money they receive.

Funding for these programs would be contingent on a so-called gross receipts tax on businesses. Under that proposal, companies would pay a tax on every Illinois-based business transaction, including sales, manufacturing, construction and services.

The governor's stated goal is to translate new education dollars into academic success, so his plan aims to improve the quality of teachers and the abilities of students. For instance, he would start a statewide mentoring program for teachers. And he would extend the school day and school year, as well as expand state-sponsored preschool for low- and middle-income families. He also proposes full-day kindergarten, after-school tutoring programs for underperforming schools and teacher bonuses based on students' federal test scores.

The Illinois Education Association opposes merit-based pay that's directly tied to students' test scores, according to Ken Swanson, association president. "Any merit-based pay should be subject to collective bargaining at the district level," he says, adding that teachers in districts with high percentages of low-income students may not have the same resources that have been proven to help students achieve.

This fall, a pilot program for merit-based pay will be started in 10 of Chicago's public schools. Seventy-five percent of the teachers in the targeted schools voted to approve the program, a necessary step for implementation.

The program would give teachers financial rewards and enable them to receive leadership positions for their performance, says Mike Vaughn, press secretary for Chicago Public Schools. Veteran educators would mentor new teachers, sharing their expertise in dealing with behavioral and educational challenges. The main focus will be on building teamwork.

A system for evaluating teachers has yet to be worked out. The possibilities include using students' test scores, reviewing teachers' instructional skills and monitoring whether students improve their skills to the next grade level.

"It would be unreasonable to expect teachers who have students that are way behind their grade level to get them up to standards in one year," Vaughn says.

The pilot also aims to retain experienced teachers. Forty percent to 50 percent of new teachers leave the profession in the first five years, according to Swanson. He says factors that contribute to the high turnover include low starting salaries, inadequate resources and feelings of isolation. Also, some teachers aren't prepared for the challenges of teaching students in poor districts.

Advocacy groups say another way to build accountability would be to offer more programs designed to couple new teachers with mentors for support and help in developing effective teaching skills. New teachers also would be given a chance to earn leadership positions. A+ Illinois estimates that a sound mentoring program would cut teacher attrition, but could cost more than $78 million a year.

The Illinois State Board of Education has funded 10 pilot mentoring programs and is expected to provide $1.75 million in grants for fiscal year 2007.

The state also may have to figure out ways to attract teachers to low-income areas. Rep. Charles Jefferson, a Democrat from Rockford, who says he has hard-to-staff schools in his district, has introduced a proposal to address the problem. He would give a $20,000 stipend every year for teaching in schools that are in high-crime areas and have high teacher shortages and a substantial percentage of low-income students.

These teachers would have to sign contracts agreeing to stay at the schools for five years in order to receive the grants, which could be collected at the end of each school year. Any teacher who meets the state's requirements for

being highly qualified would be eligible. That means the teacher must have a bachelor's degree, full state certification and competence in core subjects.

The Illinois Teaching Excellence Program, started in 2001, already awards $3,000 to any public schoolteacher or counselor who holds a master teaching certificate and teaches at least 50 percent of the year. If funds are limited, those stipends are prorated.

"As legislators, we need to do everything in our power we can to fix this problem, even if it means paying more money," says Jefferson.

He hasn't come up with an estimate of the cost but says the money would have to come from existing funds.

Purkey of the Illinois Federation of Teachers says a stipend might not be enough to recruit teachers to schools that are located in gang territory or are dilapidated and have inadequate resources. As a result, students in those districts may have a harder time meeting federal standards.

One way to target low-performing schools, according to A+ Illinois, is to train more nationally certified teachers and recruit minorities into teaching and administration. The Grow Your Own Teachers initiative is one example.

"Most teachers end up working in communities similar to where they grew up," says Steve Andrews, resource coordinator for Grow Your Own Illinois, a collaboration of six education organizations. The coalition works closely with the Association of Community Organizations for Reform Now, or ACORN.

Out of 64 Chicago schools the group analyzed, new teachers left at a rate of about 40 percent after their first year, according to its report, *Here One Year, Gone the Next*.

"Teacher turnover is very costly and problematic for teacher quality," says Andrews. "The whole process of providing support is very expensive, $20,000 to $75,000 a year to bring in one new teacher."

He adds high turnover rates happen partially because schools cannot find teachers who come from similar backgrounds as the students.

The Grow Your Own Teachers Act was signed into law in 2004 in an effort to address turnover rates and hard-to-staff schools. In 2005, $1.5 million was appropriated for groups to plan programs and another $3 million in 2006 to start programs in 11 communities. With 395 people currently in the program, Andrews says his organization hopes to expand the project this fall to Aurora, the Cairo area, Champaign, Rogers Park in Chicago and Peoria. The goal is to provide the state with 1,000 new teachers by 2016.

Photograph by Leslie Williams, courtesy of the U.S. Department of Education

U.S. Secretary of Education Margaret Spellings marks the fifth anniversary of No Child Left Behind at a meeting of the U.S. Chamber of Commerce in Washington, D.C.

"This program is very unique to Illinois," Andrews says. "Illinois is ahead of the curve. We have been getting inquiries from other states who are looking to do something similar."

A+ Illinois says the state could further improve student achievement by using such research-based strategies as reducing class sizes, offering full-day kindergarten, expanding after-school tutoring programs and training staff in low-performing areas.

Pennsylvania has put such strategies to the test with its Accountability Block Grant program, which puts education dollars in school districts with the greatest need as determined by low test scores. Seventy-five percent of education dollars are sent to the schools where students placed below federal standards, and 25 percent goes to schools that placed above standards. Money has been used for tutoring, mentoring programs and teacher coaching.

In Illinois, a longstanding proposal has been revised and introduced in both chambers by Sen. James Meeks, a Chicago Democrat, and Rep. David Miller, a Lynwood Democrat. The measure would increase spending per student, create a $300 million venture pool to start programs in struggling schools and provide property tax relief and tax credits for low- and moderate-income homeowners. The measure also calls for an increase in state income taxes from 3 percent to 5 percent and an expansion of the sales taxes to include services. The plan would be expected to generate annual net revenue of between $5 billion and $6 billion, according to Ralph Martire, executive director of the Chicago-based Center for Tax and Budget Accountability.

But the sponsors have yet to flesh out the provision that would establish new fiscal and academic accountability measures. Critics argue that, as it stands, the measure fails to hold school districts accountable for their spending of new state dollars, which Miller says is a valid argument. However, to move the bill forward and to put pressure on lawmakers to act now, he says that portion was left blank.

"This will give critics and supporters a chance to craft accountability measures." He says he hopes to work with House Speaker Michael Madigan and Senate President Emil Jones Jr. to iron out the issue and gain support for the funding reforms.

For Swanson, the Illinois Education Association president, the time for that reform is now. "I have seen this for too long, lots of lip service and no action. Its time to take action this spring." ❑

Field of dreams

Renewable energy could grow into a lucrative harvest for market. Making that a reality is a priority for lawmakers who are overhauling U.S. farm policy this year.

by Chuck Abbott

On his grain and livestock farm near Seneca in LaSalle County, Philip Nelson is planting more corn and enjoying prices that could hit record highs this year. "You smile when you see the commodity prices," he said just before the arrival of a planting season dominated by explosive growth in the ethanol industry, which is forecast to consume a quarter of this year's U.S. corn crop.

"That's the big driver," says Steve Pigg, who farms close to 900 acres near Bushnell in western Illinois. He says farmers are torn between marveling at the chance to reap $4 a bushel for corn and skepticism — "'Is this price for real? Can it be sustained?'"

In Assumption, Len Corzine, a farmer who is active in corn grower circles, says "the fellows in the coffee shop — everybody's talking about the price of corn and how much corn they can plant."

Credited with doubling corn prices since last fall, corn-based ethanol is the first renewable-energy bonanza for American agriculture. Instead of just producing food and fiber, farmers could produce fuel under a scenario that sees renewable energy — biomass, wind farms, manure digesters and solar collectors — as a lucrative market for harvest in coming years.

Ethanol is the skyrocket today, sparked in part by a 2005 law guaranteeing annual use of 7.5 billion gallons of renewable fuel by 2012. Distillers made 3.9 billion gallons in 2005. That production leaped to 4.86 billion gallons in 2006 and will zoom to 6.5 billion gallons this year. According to government and industry analysts, it can be expected to expand for years to come.

The ethanol industry will use 3.2 billion bushels of this year's corn crop, according to U.S. Department of Agriculture projections, while exports, the agricultural pole star for decades, will tally only 1.925 billion bushels. In fact, the success of biofuels overshadows the halting progress in world trade talks.

It also colors the debate over renewal of the federal farm bill.

"This is the most exciting thing I've seen in agriculture in my lifetime," says House Agriculture Committee Chairman Collin Peterson. The Minnesota Democrat says ethanol and other renewables, such as biodiesel, will be a priority for lawmakers in overhauling U.S. farm policy this year. And Senate Agriculture Committee Chairman Tom Harkin, an Iowa Democrat, says, "Energy is the issue that drives" the farm bill.

That would mean an unconventional farm bill headlined by biofuels research and development, putting crop supports and land stewardship

Photograph by Lynn Betts, courtesy of the U.S. Department of Agriculture's Natural Resources Conservation Service

Wind generators in northwest Iowa produce electricity from the air currents.

initiatives in a secondary position.

A more immediate question — how much money will be available for farm programs overall — could be decided by the middle of this month, if Congress meets its goal for passing a budget resolution.

"That's the No. 1 issue to start the farm bill discussion," says Nelson. Crop, dairy and stewardship subsidies averaged $20 billion a year recently, but less than half of that might be available in coming years under congressional formulas that take high grain prices into account. "There's not going to be very much room to work with. We're going to have to be very, very creative," says Pigg.

Harkin and Peterson say they want Congress to enact the new farm bill shortly after Labor Day, a schedule that means drafting a bill in committee this spring and winning passage in each chamber before the August recess. But the issue has already drawn sharp disagreements.

Speaker Nancy Pelosi at a National Farmers Union meeting in early March said cellulosic ethanol "is part of where we're going to spend" the $15 billion in tax cuts that Democrats would revoke from oil companies. Adding that America's farms and fields could become the Victory Gardens of the 21st century, she said the farm bill "will assume a larger role in responding to energy security, energy cost and rural economic concerns."

Meanwhile, President George W. Bush's administration, over the opposition of farm groups, wants Congress to rejigger and reduce crop spending. And an amalgam of small-farm advocates, fiscal hawks and specialty-crop growers want vast increases in stewardship spending, possibly at the expense of subsidies to grain, soybean and cotton growers.

For the most part, though, U.S. farm groups want to keep the three-part crop subsidy structure created in 2002: direct payments guaranteed annually, supports that assure a minimum price and counter-cyclical payments made automatically when crop returns fall below targets set by law.

In its farm bill recommendations, the Bush Administration proposed a 10 percent increase in direct payments and a cut of a few cents a bushel in price supports — overall "a wash" as far as spending, says Agriculture Secretary Mike Johanns. Crop subsidy spending would fall by $5 billion over 10 years because of stricter eligibility

Ethanol makers based in Illinois

(Millions of gallons per year)

FIRM	CAPACITY	EXPANSION
Adkins Energy LLC, Lena*	40	0
ADM, Decatur-A	1,070	275
Aventine Renewable Energy LLC, Pekin-B	207	0
Center Ethanol Co., Sauget **	0	54
Central Illinois Energy LLC, Canton **	0	37
Illinois River Energy LLC, Rochelle	50	0
Lincolnland Agri-Energy LLC, Palestine*	48	0
Marquis Energy, Hennepin **	0	100
Patriot Renewable Fuels LLC, Annawan **	0	100

MGP Ingredients Inc., with headquarters in Atchison, Kan., has a plant in Pekin with capacity of 78 million gallons a year.

* Farmer-owned
** Under construction
A-ADM has plants in Decatur and Peoria; Cedar Rapids and Clinton, Iowa; Columbus, Neb.; Marshall, Minn.; and Wallhalla, N.D.
B-Aventine has plants in Pekin and in Aurora, Neb.

SOURCE: Renewable Fuels Association

Photograph by Bob Nichols, courtesy of the U.S. Department of Agriculture's Natural Resources Conservation Service

Buffer strips in the foreground and a grassed waterway protect the natural resources on this farm northwest of Peoria. The buffer strip reduces soil erosion and keeps the Illinois River cleaner.

rules and a retailoring of the counter-cyclical payment, now triggered by low prices, into revenue protection payments that respond to poor yields as well as low prices. The revenue protection idea does not go as far as the National Corn Growers Association or the Illinois Farm Bureau would like. They want to create a new system of crop supports based on revenue.

"We'd like to see a change in policy," says Pigg, the Bushnell farmer who chairs the National Corn Growers Association's public policy action team, which has spent more than a year designing revenue assurance approaches. Separately, the Chicago Council on Global Affairs has proposed a whole-farm revenue insurance plan to guarantee farm income.

At the same time, fruit, vegetable, nut and nursery crop growers argue they deserve more attention in the farm bill. The administration has offered $5 billion over 10 years in larger purchases for school food and public nutrition programs and more assistance in opening export markets, besides expanding stewardship programs. But it also would end the long-time ban on growing fruits and vegetables on land eligible for crop supports, a change the industry says is unacceptable.

For their part, Harkin and Peterson are keeping an eye to biofuels. In fact, Peterson sees biofuels as the opportunity to build a new urban-rural coalition that supports farmers, supplementing the long-time partnership of public nutrition, such as food stamps and crop supports. Both have suggested hefty increases, perhaps up to $5 billion a year, for research into biofuels and for grant and loan programs that would help assure construction of new facilities. The obvious target for research is cellulose, tagged as the next major ethanol feedstock, though it's too costly to use now. If there are breakthroughs, an ethanol nation could sprout, with distilleries variously fed by grasses, wood chips or crop residues, instead of a regional industry based in the Corn Belt.

Peterson promotes a pilot project, dubbed the Energy Reserve, to pay farmers in selected areas in each state to experiment with biomass crops. It would be a step toward assuring that raw materials are available when full-scale cellulosic ethanol production begins, perhaps in five years.

Meanwhile, the federal Energy Department announced grants in late February totaling $385 million to help build six cellulosic biorefineries in California, Florida, Georgia, Idaho, Iowa and Kansas. The goal is to make cellulosic ethanol cost-competitive with corn by 2012, with production costs around $1 a gallon, says energy Secretary Sam Bodman.

The Bush Administration says the farm bill should let farmers grow biomass crops on up to three-fourths of the Conservation Reserve in exchange for a smaller federal ag department rental payment. It also proposes $1.6 billion in renewable energy research, mostly into cellulosic ethanol, over 10 years and $2.1 billion in loan guarantees for cellulosic ethanol plants.

Bush has suggested a national goal of using 35 billion gallons of renewable and alternative fuels by 2017, but skeptics, even within the administration, wonder if there is enough consumer demand or corn supply to reach half of that. High corn prices or low petroleum prices could disturb the economics of ethanol expansion, as well.

Some popular biofuels-boosting ideas are outside the jurisdiction of the agriculture committees. It would be problematic to write a farm bill that raised the renewable fuel mandate, for example, or required automakers to produce more flexfuel cars or told oil companies to install E85 pumps, though Peterson has raised the idea of writing a farm bill jointly with the House Energy and Commerce Committee to assure the infrastructure to handle and use the impending ethanol flood. Similarly, two ethanol incentives — the 51-cent-a-gallon blender tax credit and the 54-cent-a-gallon tariff on imported ethanol — are in the hands of the tax-writing committees.

There are other complications. High feed grain prices thrill growers but they pinch cattle, hog and poultry producers, as well as processors and food makers. The National Chicken Council says the cost of raising a broiler chicken was up by 6 cents a pound because of zooming feed costs. And the Food and Agricultural Policy Research Institute at the University of Missouri says farmers will lose money on hogs this year after three money-making years. "It's hard to find a meat industry that's more affected" by ethanol, says the institute's Scott Brown. While distiller-dried grains, a co-product of ethanol plants, can be substituted in cattle rations, they are far less palatable for hogs and poultry.

"We need a broad-based approach on this," says Jay Truitt of the National Cattlemen's Beef Association. A coalition of foodmakers, grain processors and live-stock groups wants some of the 36.7 million acres idled in the Conservation Reserve to return to crops, either as part of the farm bill or by unilateral agriculture department action. Beyond that, and more money to control feedlot runoff, there are few ways for the farm bill to help live-stock producers directly. Cattle and hog farmers say ethanol incentives should be allowed to expire later this decade.

As president of the Illinois Farm Bureau and a cattle and hog feeder, Seneca farmer Nelson is familiar with the problem. "Producers are trying to grapple with the highest feed costs that we've seen since 1995-96, when we had $5 corn."

The ag department's Johanns tells questioners "there are about two years here that are just a tough adjustment" for live-stock. In the meantime? "I believe we are at a transforming moment at the interface of agriculture and energy," he says. "New markets are emerging, and we believe these markets are here to stay." ❑

Chuck Abbott, a former Illinoisan, is the Washington, D.C.-based commodities correspondent for Reuters. This month, he becomes president of North American Agricultural Journalists.

Illinois ethanol at a glance

• Archer Daniels Midland, the industry leader, is the largest of 11 ethanol refiners operating in Illinois. The company has an annual capacity of more than 1 billion gallons a year, 19 percent of the U.S. total.

• The Renewable Fuels Association estimates 3 billion gallons of new capacity will be added this year to the 5.63 billion gallons now on line. At the beginning of March, there were 114 ethanol refineries in the nation, mostly in the Corn Belt.

• Farmer-owned plants account for 39 percent of U.S. capacity that is in operation, but their share will fall in the near term because they have a smaller share of projects under construction.

• A bushel of corn yields up to 2.8 gallons of ethanol.

Please join us for this free program

A BUDGET ON THE BRINK

Illinois is headed toward financial implosion.

The State's liabilities and unfunded commitments exceed its assets by over $100 billion. The State has failed to set aside the amounts necessary to pay employee/retiree pensions and health benefits and to pay amounts currently owed to healthcare providers under Medicaid. The State has also failed to fund K-12 education at the "foundation" level. These liabilities and unfunded commitments are growing rapidly. Yet the State continues to spend or commit to spend billions more than it takes in each year.

This jolting conclusion, after an in-depth examination of state finances, comes from the highly respected Civic Committee of the Commercial Club, which represents major employers in Illinois.

The warning is the catalyst for staging a day-long conference featuring speakers from a diversity of perspectives who are well-prepared to elaborate on spending pressures and obligations as well as the state's current revenue structure.

Monday, April 16, 2007
9:30 a.m. to 4 p.m.
Springfield Hilton Hotel
Pre-Registration Required
To register, call the SIU Division of Continuing Education at (618) 536-7751 or visit www.siu.edu/~ppi

9:30 a.m — WELCOMING REMARKS
Mike Lawrence, Director, Paul Simon Public Policy Institute, Southern Illinois University Carbondale; and **Robert Rich**, Director, Institute of Government and Public Affairs, University of Illinois

10 a.m. — **R. Eden Martin**, President, Civic Committee of the Commercial Club

11:00 a.m. — Representative of the Office of the Governor (invited)

12:00 p.m. — BUFFET LUNCH (free, but registration required by April 11)

1:15 p.m. — DISCUSSION ON SPENDING PRESSURES
Moderator: **Charlie Wheeler**, Director, Public Affairs Reporting Program, University of Illinois at Springfield
Participants: **Linda Renee Baker**, University Professor, Paul Simon Public Policy Institute and former Secretary of the Illinois Department of Human Services; **Mary Ellen Guest**, Campaign Manager, A+ Illinois; **Jeff Mays**, President, Illinois Business Roundtable and former Illinois state representative; and **Hank Scheff**, director of research and employee benefits, AFSCME Council 31

2:45 p.m. — DISCUSSION ON THE STATE'S REVENUE STRUCTURE
Moderator: **Beverly Bunch**, Associate Professor, University of Illinois at Springfield and the Institute for Legal, Legislative and Policy Studies
Participants: **Greg Baise**, President and CEO, Illinois Manufacturers' Association; **Tom Johnson**, President, Taxpayers Federation of Illinois, and former director of the Illinois Department of Revenue; **Ralph Martire**, Executive Director, Center for Tax and Budget Accountability; and **Joan Parker**, Director of Government Relations, Chicagoland Chamber of Commerce

Co-sponsored by: Paul Simon Public Policy Institute at Southern Illinois University Carbondale, Institute of Government and Public Affairs at the University of Illinois at Urbana-Champaign, Center for State Policy and Leadership at the University of Illinois at Springfield, Illinois Issues magazine, and the Center for Tax and Budget Accountability

For more information, contact the Paul Simon Public Policy Institute at (618) 453-4009 or siuppi@siu.edu.

DALEY REPRISE
Chicagoans vote for mayoral record

If he completes his new sixth term, Chicago Mayor **Richard M. Daley** will become the city's longest-serving mayor. His father, Richard J. Daley, known as the last of the "Big City Bosses," served 21 years as mayor, from 1955 until his death in 1976. The younger Daley won election to a full term as mayor in 1989 after having won a two-year term in a special election to replace the late Harold Washington.

In the February election, Daley secured more than 71 percent of the vote to defeat Dorothy Brown, Cook County circuit court clerk, and William "Dock" Walls III, a former aide to Washington, according to State Board of Elections records.

Among the Daley Administration's accomplishments were tourism projects spearheaded by the Metropolitan Pier and Exposition Authority, some of which carried out his father's vision: the $150 million renovation of Navy Pier, the $987 million expansion of McCormick Place and the $475 million creation of Millennium Park. Daley also oversaw projects to construct and remodel stadiums for Chicago's professional sports teams.

But Daley's administration also has been dogged by federal investigations, which led to more than 40 convictions. Robert Sorich, convicted of running a scam to promote political hiring out of Daley's office, is now serving jail time. So is James Laski, the city's former city clerk. He was convicted for taking bribes to steer city business to friends.

Daley has not been charged with any wrongdoing himself.

His political career began with his election as a delegate to the 1969 Constitutional Convention. He served as state senator for 10 years, then as Cook County state's attorney for nine.

SHIFTS AT THE TOP

Maureen O'Donnell advanced from assistant director to acting director of Central Management Services. Her previous experience includes positions with the University of Illinois Hospital and Ameritech. She replaces **Paul Campbell**, who returned to the private sector. Director since 2005, he continued the efforts of former Director Michael Rumman to consolidate agency operations in purchasing, information technology, telecommunications, auditing and legal services. But on his watch, the administration received federal subpoenas in a probe of state hiring and contracting.

Andrew Velasquez

Andrew Velasquez was appointed to direct the Illinois Emergency Management Agency. He replaces **William Burke**, who returned to the private sector.

Velasquez led Chicago's Office of Emergency Management and Communication. Before that, he worked for the Chicago Police Department in positions ranging from research analyst to director of the Criminal Identification and Record Services Division. He also spent six years in the U.S. Army.

As director of the state's emergency response agency, he also will oversee the Illinois Terrorism Task Force, working with Chairman **Michael Chamness**.

Velasquez's appointment needs Senate approval.

James Sledge

George F. Ryan, chief engineer for the Illinois Department of Transportation, was appointed deputy director of highways and Region 2 engineer. He replaces **Gregory Mounts**, who returned to the private sector last year. Ryan is responsible for planning, construction and maintenance of roads in his northern Illinois region.

James Sledge, former director of the Illinois Human Rights Commission, has been appointed director of the state Department of Employment Security. He replaces **Brenda Russell**, who returned to the private sector.

Before joining the Blagojevich Administration, Sledge spent eight years as an assistant state's attorney and practiced in the child support and domestic violence divisions.

As director of the Human Rights Commission, he managed a $1 million budget, processed civil rights claims and served as a liaison to the governor's office, state agencies and the General Assembly. His appointment needs Senate approval.

ETHICS WAIVER

Timothy Martin, former Illinois Department of Transportation secretary, received a waiver from state ethics laws to accept an executive position with Chicago-based Consoer, Townsend & Associates, a private engineering firm that was awarded transportation contracts through Martin's final year at the agency, according to the Illinois Executive Ethics Commission (see *Illinois Issues*, March, page 34).

QUOTABLE

> "I have some specific needs in my district that have to be met, or else I can't even consider committing career suicide."

State Sen. Mike Jacobs, an East Moline Democrat, to Copley News Service reporter Mike Ramsey about the governor's proposed gross receipts tax. His comment also may be the most unvarnished assessment on the overall theme of this legislative session.

For updated news see the *Illinois Issues* Web site at http://illinoisissues.uis.edu

DANCING INTO HISTORY

Photograph courtesy of the University of Illinois

Chief Illiniwek, the University of Illinois' symbol for 81 years, danced for the last time February 21 at a basketball halftime show. The university's Board of Trustees formally voted March 13 to retire the Chief to conform to NCAA rules. Opponents saw the Chief as a negative image for Native Americans. In April 2006, the NCAA ruled that the university couldn't host postseason tournament play as long as it supported the Chief. The university will keep the Fighting Illini slogan.

Former reporter joins state health care effort

Former political editor and TV reporter **Dick Kay** came out of retirement to join Gov. Rod Blagojevich's administration as a special health care advocate. Working on a six-month contract that ends this summer, Kay travels around the state with a camera crew gathering anecdotes from families, businesses, college students and others who have difficulty affording health insurance.

The anecdotes appear on the Web site touting the governor's proposed form of universal health care, *www.IllinoisCovered.com*, which Kay says can help lawmakers find out what their constituents are experiencing.

"I was trying to give a voice to the people who have no voice, tell the story," he says. "I'm a health care advocate, but I'm also an ex-political reporter. No one is talking about health care."

Kay previously spent 38 years with WMAQ-Channel 5 and has spent a total of 46 years in the industry. He's currently vice president of the national American Federation of Television and Radio Artists and is a former president of the Chicago local.

Dick Kay

He says he came out of retirement at the governor's request because access to health care is a personal issue for him and his family, which includes two sons who are professional artists and have had a hard time affording private health insurance premiums.

In a printed release, the governor said, "[Kay's] life experiences and unrivaled ability to relate to people from all walks of life will make him an asset as we communicate the challenges families and small businesses face now and introduce our plan for expanding access to health coverage."

Kay worked for various stations in Peoria and Green Bay, Wis., before coming to Chicago. At NBC 5, he served as political editor and host of the Sunday morning political show *City Desk* before retiring in May.

Kudos for state Capitol restoration

I enjoyed Bethany Carson's "Capitol restoration" photo essay (see *Illinois Issues*, February, page 30). Since I stepped into Illinois' "new" Capitol building as a legislative staff intern, I've always been humbled by its awesome architecture. Not since Secretary of State Jim Edgar's restoration of the rotunda dome and his major improvements in the 1980s has our Capitol looked so magnificent.

The entire state and those honored to work in the Capitol owe a big thank-you to the specialized workers, Secretary of State Jesse White and staff, plus the Capitol architect, Don McLarty. My personal thanks to the retired Secretary of the Senate Linda Hawker and Senate Presidents James "Pate" Philip, who began the process, and Emil Jones Jr. for bringing the Senate to 21st century technological standards, while preserving its history.

Finally, a special thank-you to my former classmate at Western Illinois University, Speaker Michael Madigan's chief of staff, Tim Mapes, for his long-time attention to the Capitol's historical detail. Without Tim's perseverance, this latest Capitol restoration probably would not have been completed — certainly not as spectacularly!

Sen. Kirk Dillard
Naperville

Write us

Your comments are welcome. Please keep them brief (250 words). We reserve the right to excerpt them.

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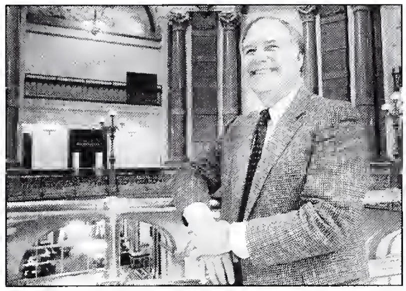
Charles N Wheeler III



The governor's rhetoric was larger than life, but reality rests in legislative language

by Charles N. Wheeler III

"Make no little plans; they have no magic to stir men's blood... ."
Daniel H. Burnham

In his State of the State/budget address last month, Gov. Rod Blagojevich quoted Dr. Martin Luther King Jr. and cited Hercules' struggle to kill the many-headed Hydra.

But the $60 billion spending plan he presented also seemed to embody the advice of the famed Chicago architect, for it was truly super-sized. Blagojevich called for:

- The largest tax increase in state history, a new tax on every nickel coming in the door that would cost Illinois business an estimated $6 billion a year.
- The largest bond sale in state history, a $16 billion borrowing plan that would raise the state's general obligation debt load by some 80 percent.
- The largest disposal of assets in state history, a $10-billion, long-term lease of the state lottery, far eclipsing the governor's proposed $216 million mortgage of the Thompson Center in 2004.
- The largest-ever increase in spending for elementary and secondary education, $1.5 billion more for the fiscal year starting July 1.
- The largest-ever expansion of state-subsidized health care, intended to provide coverage for most of the state's 1.4 million uninsured residents.
- The largest-ever infusion of cash into the state's underfunded public employee pensions, a $26 billion windfall that overnight would bring the five systems' assets to roughly 83 percent of benefits due current and former workers.

The new levy would replace what the governor termed the "loophole-ridden" corporate income tax that allows big corporations to avoid paying "their fair share" of government costs.

Indeed, about the only moderate aspect of his address to a joint legislative session was its length, clocking in at just a few minutes past half an hour. But the rhetoric was larger-than-life, especially when the governor argued for his "Tax Fairness Plan," as he dubbed the proposed gross receipts tax.

The new levy would replace what the governor termed the "loophole-ridden" corporate income tax that allows big corporations to avoid paying "their fair share" of government costs.

From 1997 to 2004, he told lawmakers, almost half of the corporations with annual Illinois sales of $50 million or more paid no corporate income taxes. In 2004, 37 Fortune 500 companies paid no state income tax, despite averaging $1.2 billion in sales here.

"This is grossly unfair," he said.

Even as he followed Burnham's advice to think big, the governor also managed to "stir the blood" of almost everyone with a stake in the battle, though perhaps not always in the way the architect envisioned.

Education groups and health care advocates enthusiastically applauded the governor's plans to pour more money into their causes, of course.

But the state's business community condemned the new tax as a serious blow that would discourage investment in the state and hurt job growth. Moreover, business leaders warned, much of the higher tax burden would be passed on to consumers in the form of higher prices for most of the goods and services they buy.

Administration aides downplayed such concerns, predicting that companies would absorb most of the added cost because the rate of the new tax would be so low — only 50 cents on every $100 taken in by a goods-producing business, like a manufacturer, and $1.80 per $100 for a service company, like an accounting firm.

In addition, they noted, the plan would exempt entirely businesses with Illinois sales of less than $1 million and would exclude receipts from goods sold outside Illinois, from retail food and drug sales, and from Medicaid payments to health

care providers, so that three-quarters of Illinois companies would not be covered.

Whether the business community's fears are well-founded, or administration assurances are on target, probably can't be known until the tax is in place, and a lot will depend on the actual wording of the law. Not even a draft version was available at the time of the governor's address.

Still, some initial observations seem warranted. Consider, for example, the governor's complaints about the "loophole-ridden" corporate income tax, with its overtones of shady doings.

Under current law, corporations are taxed only on their profits — their revenues minus their business expenses — from their activities in Illinois. They pay billions of dollars in property taxes, sales taxes, excise taxes, fees and other government-imposed costs, which reduce their profits and thus their income tax liability. They also can reduce their liability through various deductions and credits, if they are eligible. They may also

Would a gross receipts tax preclude "loopholes"? Obviously not.

deduct net operating losses over several years.

Such tax breaks have been enacted over the years to encourage businesses to behave in certain ways, such as hiring people who are leaving welfare, or expanding operations on the state's borders. In fact, Blagojevich last year signed into law an expanded movie and TV production credit, intended to boost the state's film industry. Corporate tax breaks cost the state an estimated $200 million in fiscal 2005, according to the most recent report from the comptroller, a sum roughly equal to about 20 percent of the amount corporations paid.

Would a gross receipts tax preclude "loopholes"? Obviously not. The governor's plan, for example, includes exemptions that would remove about half of the state's overall economy from its reach. And the same shrewd accountants and clever lawyers who figured out how to game the income tax will do the same with the gross receipts tax.

Also certain is that consumers will wind up paying a good chunk of the new tax, although exactly how much is impossible to say. Even if only half of the $6 billion tax is passed on, however, the extra $3 billion bill for consumers is close to a third of what Illinoisans already pay in income taxes — but, unlike state income taxes, would not be a federal deduction.

Given such uncertainties, one would be well-advised to update Burnham's wisdom — make no little plans, but be sure to read the fine print on the big ones. ❑

Charles N. Wheeler III is director of the Public Affairs Reporting program at the University of Illinois at Springfield.

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